



CITY COUNCIL STAFF REPORT

MEETING DATE: *February 5, 2003*

MID-YEAR 2002/03 BUDGET WORKSHOP

RECOMMENDED ACTIONS:

- 1) Discuss 2002/03 City budget
- 2) Provide direction to staff regarding the City budget

EXECUTIVE SUMMARY: Mid-year analysis of the 2002/03 Budget shows that total available fund balance for the General Fund, including contingencies, is now projected to be \$10.3 million at 6/30/03. As a result of the continued economic recession, General Fund revenues are projected to be \$700,000 less than the current budget (see Exhibit A). The \$700,000 revenue shortfall is comprised of \$500,000 in sales taxes, \$100,000 in State mandated cost reimbursements, \$200,000 in Recreation/Community Center class & rental income, and \$100,000 of interest earnings offset by an extra \$100,000 in TOT revenues and \$100,000 in other revenue.

When the \$700,000 revenue shortfall is added to the \$300,000 excess of appropriations over revenues in the original budget and to \$100,000 in 2002/03 budget increases, the projected excess of current expenditures over revenues would be \$1.1 million, if no actions were taken. However, in response to a projected shortfall of \$600,000, the City Council directed staff in November to reduce General Fund costs to a target level 4% below budget, saving \$400,000, and to spend \$200,000 in economic uncertainty reserves. Therefore, the current deficit equals \$500,000 (\$1.1 million total deficit less \$600,000 in actions). If the City Council directs staff to stay on course and funds this \$500,000 need from reserves, then the current 2002/03 reserve reduction would be \$700,000 (\$200,000 + \$500,000).

The State of California has taken the following actions this year because of its fiscal crisis:

- 1) Eliminated mandated cost reimbursements, costing General Fund \$100,000 (included above)
- 2) Took away from RDA \$600,000 in property tax increment through a property tax shift

Further, the Governor proposes the following, which would severely impact the City's finances:

- 1) Eliminating booking fee reimbursements, costing the General Fund \$30,000 per year
- 2) Eliminating the State's backfill for vehicle license fees, costing the City \$700,000 in 2002/03 and \$1.4 million (plus growth) annually beginning in 2003/04
- 3) Increasing the RDA tax increment shift to \$2 million in 2003/04 and by 5% per year thereafter

Attached are various charts and graphs summarizing the General Fund's financial condition and trends. A ten year fund balance projection reflects estimated activity with and without future projects.

Direction from the City Council is needed so that the City may provide necessary services to the public, prudently manage City resources, and strategically plan for the future. Potential solutions include:

- 1) Reducing costs
- 2) Controlling future cost increases
- 3) Eliminating or reducing programs or services
- 4) Deferring programs or projects
- 5) Reorganizing City functions (to reduce operating costs)
- 6) Increasing taxes and/or fees, including possible public safety tax and parks/recreation parcel tax (which would require voter approval)
- 7) Expanding the tax base
- 8) Drawing down General Fund reserves or reserves from other funds

FISCAL IMPACT: As described.

Agenda Item # 1

Prepared By:

Finance Director

Submitted By:

City Manager

SUMMARY OF PROJECTED GENERAL FUND REVENUES
2000/01 - 2002/03**EXHIBIT A**

REVENUE CATEGORY	2002/03 BUDGET	PROJECTED 2002/03	PROJECTED OVER(UNDR) BUDGET
TAXES:			
Property Taxes	2,008,000	2,008,000	-
Sales Taxes	5,330,000	4,800,000	(530,000)
TOT (Hotel) Taxes	892,000	976,000	84,000
Franchise Fees	965,000	965,000	-
Public Safety Sales Taxes	288,400	300,000	11,600
Property Transfer Taxes	220,000	240,000	20,000
TOTAL TAXES	9,703,400	9,309,000	(394,400)
LICENSES/PERMITS	209,450	210,000	550
REVENUE FROM OTHER AGENCIES:			
Motor Vehicle In-lieu Fees	1,965,000	2,000,000	35,000
Other	228,300	128,300	(100,000)
TOTAL REVENUE FROM OTHER AGENCIES	2,193,300	2,128,300	(65,000)
FINES & PENALTIES	97,000	97,000	-
CHARGES - CURRENT SERVICES			
Recreation classes	27,500	27,500	-
Community Center Classes/Rent	369,979	176,000	(193,979)
General Admin. Overhead	1,855,937	1,855,937	-
Other Charges	228,350	228,350	-
TOTAL CHARGES - CURRENT SERVICES	2,481,766	2,287,787	(193,979)
OTHER REVENUE:			
Interest Earnings	467,710	390,000	(77,710)
Rentals other than Community Center	89,500	90,500	1,000
Other	78,950	78,950	-
TOTAL OTHER REVENUE	636,160	559,450	(76,710)
TRANSFERS IN	925,332	941,032	15,700
TOTAL REVENUE & TRANSFERS IN	16,246,408	15,532,569	(713,839)

GENERAL FUND BALANCE PROJECTIONS
2001/02 through 2011/12

1/31/2003

This schedule shows that, based upon a status quo budget that does not take the costs or revenues of future projects into consideration, total Fund Balance for the General Fund is projected to drop from \$10.7 million at 6/30/01 to \$6.9 million at 6/30/09, and then to increase to a level of \$13.8 million. If, instead, future projects for Fire Master Plan Implementation, Aquatics Center operations, the Community Indoor Recreation Center, the new Police Station, City Hall expansion, and expanded parks maintenance are also factored in, the Fund Balance would drop from \$10.7 million at 6/30/01 to \$1.2 million at 6/30/07 and to a negative (\$7.7 million) at 6/30/12. The projections generally assume, after 2002/03, a 3% increase in revenues and in expenditures, except that no budgetary expenditure increase is shown for 2003/04. However, property taxes are projected to increase an average of 5% a year, except for an 85% increase in 2009/10 following the estimated date that the Redevelopment Agency will reach its tax increment cap. Sales taxes are projected to increase 3% in 2003/04, followed by 5% annual increases. Transient occupancy taxes are projected to increase by 3% in 2003/04 and by 20% in 2004/05, 2005/06, & 2006/07, and 5% thereafter as the economy returns to normalcy and hotels realize higher occupancy rates. The analysis does not assume any new funding sources or the addition of any major sales tax producers and does not factor in new employee positions after 2002/03. If local revenue sources are insufficient, then new sources may need to be considered and/or expenditure levels reduced.

<u>STATUS QUO:</u>	<u>2001/02</u>	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>	<u>2006/07</u>
<i>Beginning Balance</i>	10,651,443	11,232,426	10,334,897	9,871,561	9,010,464	8,295,201
Revenues & Transfers In	15,434,532	15,532,569	16,360,924	17,064,241	17,880,891	18,772,126
Expenditures & Transfers Out	<u>(14,853,549)</u>	<u>(16,430,098)</u>	<u>(16,824,260)</u>	<u>(17,925,338)</u>	<u>(18,596,154)</u>	<u>(19,286,662)</u>
<i>Ending Balance</i>	11,232,426	10,334,897	9,871,561	9,010,464	8,295,201	7,780,664
Less: Designations ⁽¹⁾	<u>3,382,000</u>	<u>3,319,436</u>	<u>7,944,370</u>	<u>8,225,696</u>	<u>8,552,356</u>	<u>8,908,850</u>
<i>Undesig Fund Balance</i>	<u>7,850,426</u>	<u>7,015,461</u>	<u>1,927,191</u>	<u>784,767</u>	<u>(257,156)</u>	<u>(1,128,186)</u>

EFFECT OF FUTURE PROJECTS:

Additional Future Expenditures:

Fire Master Plan implementation		(1,545,000)	(1,591,350)	(1,639,091)
Aquatics Center operations (Net cost) ⁽²⁾	(20,000)	(231,750)	(238,703)	(245,864)
Indoor Recreation Center ⁽⁴⁾	-	(100,000)	-	-
Police Bldg/City Hall Expansion Debt ⁽¹⁾	-	-	(276,578)	(271,255)
Parks Maintenance	(100,000)	(100,000)	(100,000)	(100,000)
Expanded Recreation (Net cost) ⁽³⁾	<u>(45,000)</u>	<u>(60,000)</u>	<u>(75,000)</u>	<u>(77,250)</u>
Total Future Expenditures	(165,000)	(2,036,750)	(2,281,631)	(2,333,459)

Additional Changes in Resources:

Loss in investment earnings			(900)	(12,719)	(78,179)	(188,556)
Add'l Transfer from Park Maint. Fund			100,000	100,000	100,000	100,000
Xfer from Comunity Center Fund for Indoor Rec Ctr			-	100,000	-	-
"Undesignation" - Fire Master Plan				1,400,000	-	-
Total Add'l Changes in Resources			<u>99,100</u>	<u>1,587,281</u>	<u>21,821</u>	<u>(88,556)</u>
Annual Future Exps. & Resources			<u>(65,900)</u>	<u>(449,469)</u>	<u>(2,259,809)</u>	<u>(2,422,016)</u>
Cumulative Future Exps. & Resources			<u>(65,900)</u>	<u>(515,369)</u>	<u>(2,775,178)</u>	<u>(5,197,194)</u>

<i>Adj Undesig Fund Bal.</i>	7,850,426	7,015,461	1,861,291	269,399	(3,032,334)	(6,325,380)
<i>Plus Designations ⁽⁷⁾</i>	<u>3,382,000</u>	<u>3,319,436</u>	<u>7,944,370</u>	<u>6,825,696</u>	<u>7,152,356</u>	<u>7,508,850</u>
<i>Adjusted Total Fd Bal</i>	<u>11,232,426</u>	<u>10,334,897</u>	<u>9,805,661</u>	<u>7,095,095</u>	<u>4,120,022</u>	<u>1,183,470</u>

GENERAL FUND BALANCE PROJECTIONS
2001/02 through 2011/12

REVENUE DETAIL	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
TAXES:						
Property Tax ⁽⁵⁾	2,167,507	2,008,000	2,108,400	2,213,820	2,324,511	2,440,737
Sales Tax	4,870,294	4,800,000	4,944,000	5,191,200	5,450,760	5,723,298
TOT Tax	931,716	976,000	1,005,280	1,206,336	1,447,603	1,737,124
Franchise Fees	954,641	965,000	993,950	1,023,769	1,054,482	1,086,116
Public Safety Sales Tax	289,705	300,000	309,000	318,270	327,818	337,653
Property Transfer Tax	267,399	260,000	267,800	275,834	284,109	292,632
TOTAL TAXES	9,481,262	9,309,000	9,628,430	10,229,229	10,889,283	11,617,559
LICENSES/PERMITS	205,595	210,000	216,300	222,789	229,473	236,357
REVENUE FROM OTHER AGENCIES:						
Motor Vehicle In-Lieu Fee	1,904,697	2,000,000	2,060,000	2,121,800	2,185,454	2,251,018
Other	254,706	128,300	132,149	136,113	140,197	144,403
TOTAL REV.- AGENCIES	2,159,403	2,128,300	2,192,149	2,257,913	2,325,651	2,395,420
FINES & PENALTIES	108,962	97,000	99,910	102,907	105,995	109,174
CHARGES - CURRENT SERVICES:						
Recreation Classes	40,718	27,500	28,325	29,175	30,050	30,951
Comty Center Classes/Rent	-	176,000	719,646	748,173	770,619	793,738
General Admin. Overhead	1,575,484	1,855,937	1,911,615	1,968,964	2,028,032	2,088,873
Other Charges	313,400	228,350	235,201	242,257	249,524	257,010
TOTAL CUR. SERVICES	1,929,602	2,287,787	2,894,787	2,988,568	3,078,226	3,170,573
Interest earnings	586,674	390,000	410,000	480,000	440,000	410,000
Rentals	41,412	90,500	108,330	126,261	144,093	152,926
Rentals - Gavilan College	-	-	173,650	265,685	273,655	281,865
Other	53,350	78,950	81,319	83,758	86,271	88,859
TOTAL OTHER REVENUES	681,436	559,450	773,299	955,703	944,019	933,649
TRANSFERS IN						
Park Maintenance	100,000	100,000	100,000	100,000	100,000	100,000
Sewer	15,000	17,500	18,025	18,566	19,123	19,696
Water	15,000	17,500	18,025	18,566	19,123	19,696
Public Safety	505,037	270,000	170,000	170,000	170,000	170,000
Community Center/Other	233,235	536,032	250,000	-	-	-
TOTAL TRANSFERS IN	868,272	941,032	556,050	307,132	308,245	309,393
TOTAL REVS. & XFERS	15,434,532	15,532,569	16,360,924	17,064,241	17,880,891	18,772,126

GENERAL FUND BALANCE PROJECTIONS
2001/02 through 2011/12

	(8)	(6)				
EXPENDITURES:	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
City Council	205,837	289,674	277,021	285,332	293,892	302,708
City Clerk	412,451	469,961	439,633	452,822	466,407	480,399
City Manager/Cable TV	530,387	624,976	557,013	573,723	590,935	608,663
Recreation	555,522	486,520	479,220	493,597	508,404	523,657
Community & Cul. Ctr.	-	930,661	1,230,000	1,266,900	1,304,907	1,344,054
Police	5,946,049	6,443,305	6,370,972	6,562,101	6,758,964	6,961,733
Fire	3,559,610	3,623,938	3,732,656	3,844,636	3,959,975	4,078,774
City Attorney	702,577	731,176	668,556	688,613	709,271	730,549
Medical Services	192,526	120,000	-	-	-	-
Finance	1,035,844	1,094,207	925,088	952,841	981,426	1,010,869
Human Resources	537,155	645,450	644,736	664,078	684,000	704,520
Parks Maintenance	649,472	879,230	826,483	851,277	876,816	903,120
PERS Rate Changes	-	-	338,527	945,933	1,108,266	1,275,038
Less: 4% target savings		(446,000)				
Less: 1% salary savings			(83,955)	(86,473)	(89,068)	(91,740)
Total Expenditures	14,327,430	15,893,098	16,405,950	17,495,379	18,154,196	18,832,345
Transfers Out						
Street Maintenance	270,000	377,000	388,310	399,959	411,958	424,317
Building Maintenance/Other	56,119	-	-	-	-	-
General Plan Update	-	60,000	30,000	30,000	30,000	30,000
Community Center	200,000	100,000	-	-	-	-
Total Transfers Out	526,119	537,000	418,310	429,959	441,958	454,317
TOTAL EXPS. & TRFS.	14,853,549	16,430,098	16,824,260	17,925,338	18,596,154	19,286,662

- (1) Cost of building a new police station and expanding City Hall reflect the portion of debt service to be paid by the General Fund and reflect the timing of construction shown in the Capital Improvement Plan
- (2) Annual net operating costs for Aquatics Center were based upon the Parks Master Plan and reflect a mid-range of net costs shown in that document and assume a June 1, 2004 start-up.
- (3) Annual net operating costs for expanded Recreation services reflect the net cost within the range reflected in the Parks Master Plan
- (4) Annual net operating costs for the Indoor Recreation Center reflect a one-time start-up cost followed by a break-even cash flow
- (5) Property taxes are projected to increase beginning in 2009/10, assuming that the Redevelopment Agency reaches its tax increment cap in 2008/09. This analysis does not reflect any potential drop in cost allocation reimbursements from the RDA that could reduce General Fund revenues.
- (6) 2003/04 expenditure projections are reflected as the amounts originally budgeted for 2002/03
- (7) Beginning in 2003/04, designations include a general reserve of 20%, an emergencies reserve of 10%, and an economic uncertainty reserve of 10%, all based upon estimated revenues. In addition, the City Council has designated \$1.4 million for fire master plan implementation.
- (8) Projected expenditures for 2002/03 include \$306,310 for prior year carry-over encumbrances and for prior year projects rebudgeted in 2002/03

GENERAL FUND BALANCE PROJECTIONS
2001/02 through 2011/12

<u>STATUS QUO:</u>	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>
<i>Beginning Balance</i>	7,780,664	7,303,391	6,900,591	8,815,324	11,100,853
Revenues & Transfers In	19,483,359	20,226,580	23,215,592	24,264,589	25,375,515
Expenditures & Transfers Out	<u>(19,960,632)</u>	<u>(20,629,379)</u>	<u>(21,300,859)</u>	<u>(21,979,060)</u>	<u>(22,668,490)</u>
<i>Ending Balance</i>	7,303,391	6,900,591	8,815,324	11,100,853	13,807,879
Less: Designations ⁽¹⁾	<u>9,193,343</u>	<u>9,490,632</u>	<u>10,686,237</u>	<u>11,105,836</u>	<u>11,550,206</u>
<i>Undesig Fund Balance</i>	<u>(1,889,953)</u>	<u>(2,590,041)</u>	<u>(1,870,913)</u>	<u>(4,982)</u>	<u>2,257,673</u>
<u>EFFECT OF FUTURE PROJECTS</u>					
<i>Additional Expenditures:</i>					
Fire Master Plan implementation	(1,688,263)	(1,738,911)	(1,791,078)	(1,844,811)	(1,900,155)
Aquatics Center operations (Net cost) ⁽²⁾	(253,239)	(260,837)	(268,662)	(276,722)	(285,023)
Indoor Recreation Center ⁽⁴⁾					
Police Bldg/City Hall Expansion Debt ⁽¹⁾	(265,773)	(264,095)	(269,425)	(269,425)	(269,425)
Parks Maintenance	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Expanded Recreation (Net cost) ⁽³⁾	<u>(79,568)</u>	<u>(81,955)</u>	<u>(84,413)</u>	<u>(86,946)</u>	<u>(89,554)</u>
Total Future Expenditures	<u>(2,386,843)</u>	<u>(2,445,797)</u>	<u>(2,513,578)</u>	<u>(2,577,903)</u>	<u>(2,644,157)</u>
<i>Additional Changes in Resources:</i>					
Loss in investment earnings	(301,563)	(450,136)	(536,363)	(713,247)	(784,204)
Add'l Transfer from Park Maint. Fund	100,000	100,000	100,000	100,000	100,000
Xfer from Community Center Fund for Indoor Rec Ctr	-	-	-	-	-
"Undesignation" - Fire Master Plan	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Add'l Changes in Resources	<u>(201,563)</u>	<u>(350,136)</u>	<u>(436,363)</u>	<u>(613,247)</u>	<u>(684,204)</u>
Annual Future Exps. & Resources	<u>(2,588,406)</u>	<u>(2,795,933)</u>	<u>(2,949,942)</u>	<u>(3,191,150)</u>	<u>(3,328,361)</u>
Cumulative Future Exps. & Resources	<u>(7,785,600)</u>	<u>(10,581,533)</u>	<u>(13,531,475)</u>	<u>(16,722,624)</u>	<u>(20,050,986)</u>
 <i>Adj Undesig Fund Bal.</i>	 <u>(9,675,553)</u>	 <u>(13,171,574)</u>	 <u>(15,402,387)</u>	 <u>(16,727,607)</u>	 <u>(17,793,313)</u>
<i>Plus Designations ⁽⁷⁾</i>	<u>7,793,343</u>	<u>8,090,632</u>	<u>9,286,237</u>	<u>9,705,836</u>	<u>10,150,206</u>
<i>Adjusted Total Fd Bal</i>	<u>(1,882,210)</u>	<u>(5,080,942)</u>	<u>(6,116,150)</u>	<u>(7,021,771)</u>	<u>(7,643,107)</u>

GENERAL FUND BALANCE PROJECTIONS
2001/02 through 2011/12

REVENUE DETAIL	2007/08	2008/09	2009/10	2010/11	2011/12
TAXES:					
Property Tax	2,562,773	2,690,912	4,972,805	5,221,446	5,482,518
Sales Tax	6,009,463	6,309,936	6,625,433	6,956,704	7,304,540
TOT Tax	1,823,980	1,915,179	2,010,938	2,111,485	2,217,059
Franchise Fees	1,118,699	1,152,260	1,186,828	1,222,433	1,259,106
Public Safety Sales Tax	347,782	358,216	368,962	380,031	391,432
Property Transfer Tax	301,411	310,454	319,767	329,360	339,241
TOTAL TAXES	<u>12,164,109</u>	<u>12,736,957</u>	<u>15,484,734</u>	<u>16,221,459</u>	<u>16,993,896</u>
LICENSES/PERMITS	<u>243,448</u>	<u>250,751</u>	<u>258,274</u>	<u>266,022</u>	<u>274,002</u>
REVENUE FROM OTHER AGENCIES:					
Motor Vehicle In-Lieu Fee	2,318,548	2,388,105	2,459,748	2,533,540	2,609,546
Other	148,735	153,197	157,793	162,527	167,402
TOTAL REV.- AGENCIES	<u>2,467,283</u>	<u>2,541,302</u>	<u>2,617,541</u>	<u>2,696,067</u>	<u>2,776,949</u>
FINES & PENALTIES	<u>112,450</u>	<u>115,823</u>	<u>119,298</u>	<u>122,877</u>	<u>126,563</u>
CHARGES - CURRENT SERVICES:					
Recreation Classes	31,880	32,836	33,822	34,836	35,881
Comty Center Classes/Rent	817,550	842,077	867,339	893,359	920,160
General Admin. Overhead	2,151,540	2,216,086	2,282,568	2,351,045	2,421,577
Other Charges	264,720	272,662	280,842	289,267	297,945
TOTAL CUR. SERVICES	<u>3,265,690</u>	<u>3,363,661</u>	<u>3,464,571</u>	<u>3,568,508</u>	<u>3,675,563</u>
Interest earnings	385,000	360,000	400,000	505,000	630,000
Rentals	152,959	152,994	153,030	153,067	153,105
Rentals - Gavilan College	290,321	299,030	308,001	317,241	326,758
Other	91,525	94,270	97,099	100,011	103,012
TOTAL OTHER REVENUES	<u>919,805</u>	<u>906,295</u>	<u>958,130</u>	<u>1,075,319</u>	<u>1,212,875</u>
TRANSFERS IN					
Park Maintenance	100,000	100,000	100,000	100,000	100,000
Sewer	20,287	20,896	21,523	22,168	22,834
Water	20,287	20,896	21,523	22,168	22,834
Public Safety	170,000	170,000	170,000	170,000	170,000
Community Center/Other	-	-	-	-	-
TOTAL TRANSFERS IN	<u>310,575</u>	<u>311,792</u>	<u>313,046</u>	<u>314,337</u>	<u>315,667</u>
TOTAL REVS. & XFERS	<u>19,483,359</u>	<u>20,226,580</u>	<u>23,215,592</u>	<u>24,264,589</u>	<u>25,375,515</u>

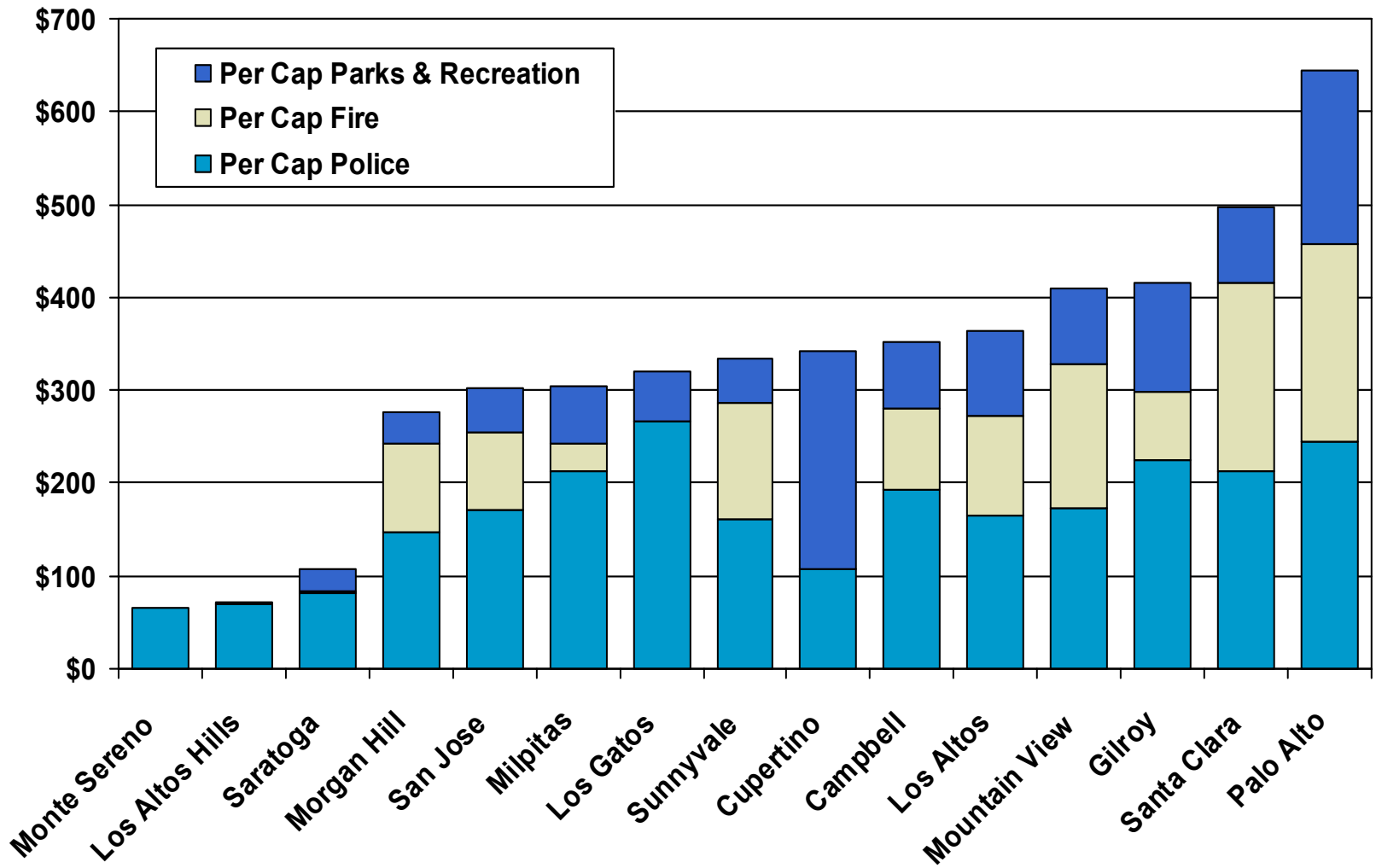
GENERAL FUND BALANCE PROJECTIONS
2001/02 through 2011/12

EXPENDITURES:	2007/08	2008/09	2009/10	2010/11	2011/12
City Council	311,790	321,143	330,778	340,701	350,922
City Clerk	494,811	509,655	524,945	540,693	556,914
City Manager/Cable TV	626,923	645,731	665,103	685,056	705,607
Recreation	539,366	555,547	572,214	589,380	607,062
Community & Cul. Ctr.	1,384,376	1,425,907	1,468,684	1,512,745	1,558,127
Police	7,170,585	7,385,703	7,607,274	7,835,492	8,070,557
Fire	4,201,137	4,327,171	4,456,987	4,590,696	4,728,417
City Attorney	752,466	775,040	798,291	822,240	846,907
Medical Services	-	-	-	-	-
Finance	1,041,195	1,072,431	1,104,603	1,137,742	1,171,874
Human Resources	725,656	747,426	769,849	792,944	816,732
Parks Maintenance	930,214	958,120	986,864	1,016,470	1,046,964
PERS Rate Changes	1,409,560	1,522,674	1,621,853	1,710,583	1,792,859
	(94,492)	(97,327)	(100,246)	(103,254)	(106,351)
Total Expenditures	19,493,586	20,149,221	20,807,196	21,471,487	22,146,590
Transfers Out					
Street Maintenance	437,046	450,158	463,662	477,572	491,899
Building Maintenance/Other	-	-	-	-	-
General Plan Update	30,000	30,000	30,000	30,000	30,000
Community Center	-	-	-	-	-
Total Transfers Out	467,046	480,158	493,662	507,572	521,899
TOTAL EXPS. & TRFS.	19,960,632	20,629,379	21,300,859	21,979,060	22,668,490

- (1) Cost of building a new police station and expanding City Hall reflect the portion of debt service to be paid by the General Fund and reflect the timing of construction shown in the Capital Improvement Plan
- (2) Annual net operating costs for Aquatics Center were based upon the Parks Master Plan and reflect a mid-range of net costs shown in that document and assume a June 1, 2004 start-up.
- (3) Annual net operating costs for expanded Recreation services reflect the net cost within the range reflected in the Parks Master Plan
- (4) Annual net operating costs for the Indoor Recreation Center reflect a one-time start-up cost followed by a break-even cash flow
- (5) Property taxes are projected to increase beginning in 2009/10, assuming that the Redevelopment Agency reaches its tax increment cap in 2008/09. This analysis does not reflect any potential drop in cost allocation reimbursements from the RDA that could reduce General Fund revenues.
- (6) 2003/04 expenditure projections are reflected as the amounts originally budgeted for 2002/03
- (7) Beginning in 2003/04, designations include a general reserve of 20%, an emergencies reserve of 10%, and an economic uncertainty reserve of 10%, all based upon estimated revenues. In addition, the City Council has designated \$1.4 million for fire master plan implementation.
- (8) Projected expenditures for 2002/03 include \$306,310 for prior year carry-over encumbrances and for prior year projects rebudgeted in 2002/03

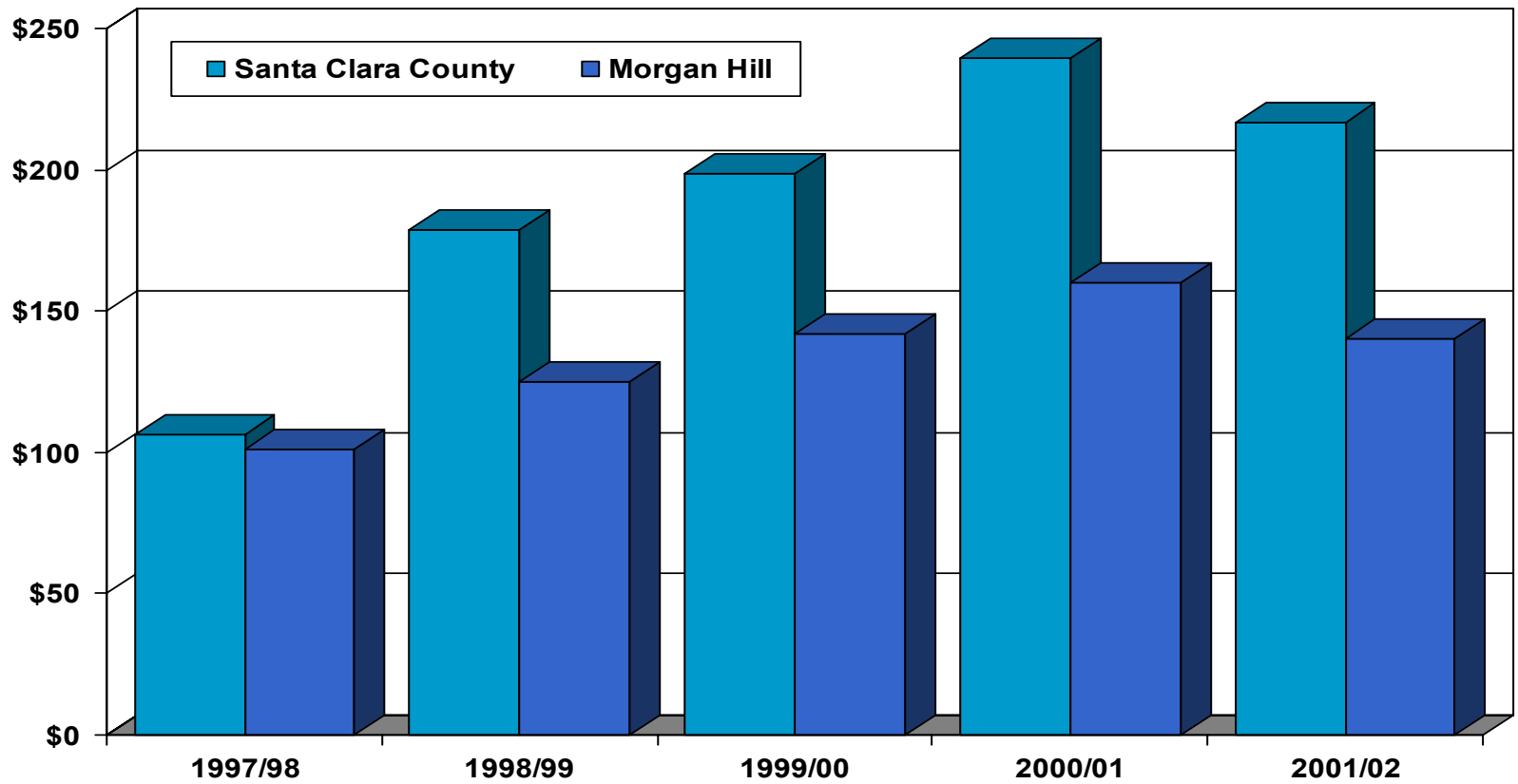
Per Capita Cost Comparison by Cities

Santa Clara County — FY 1998/99

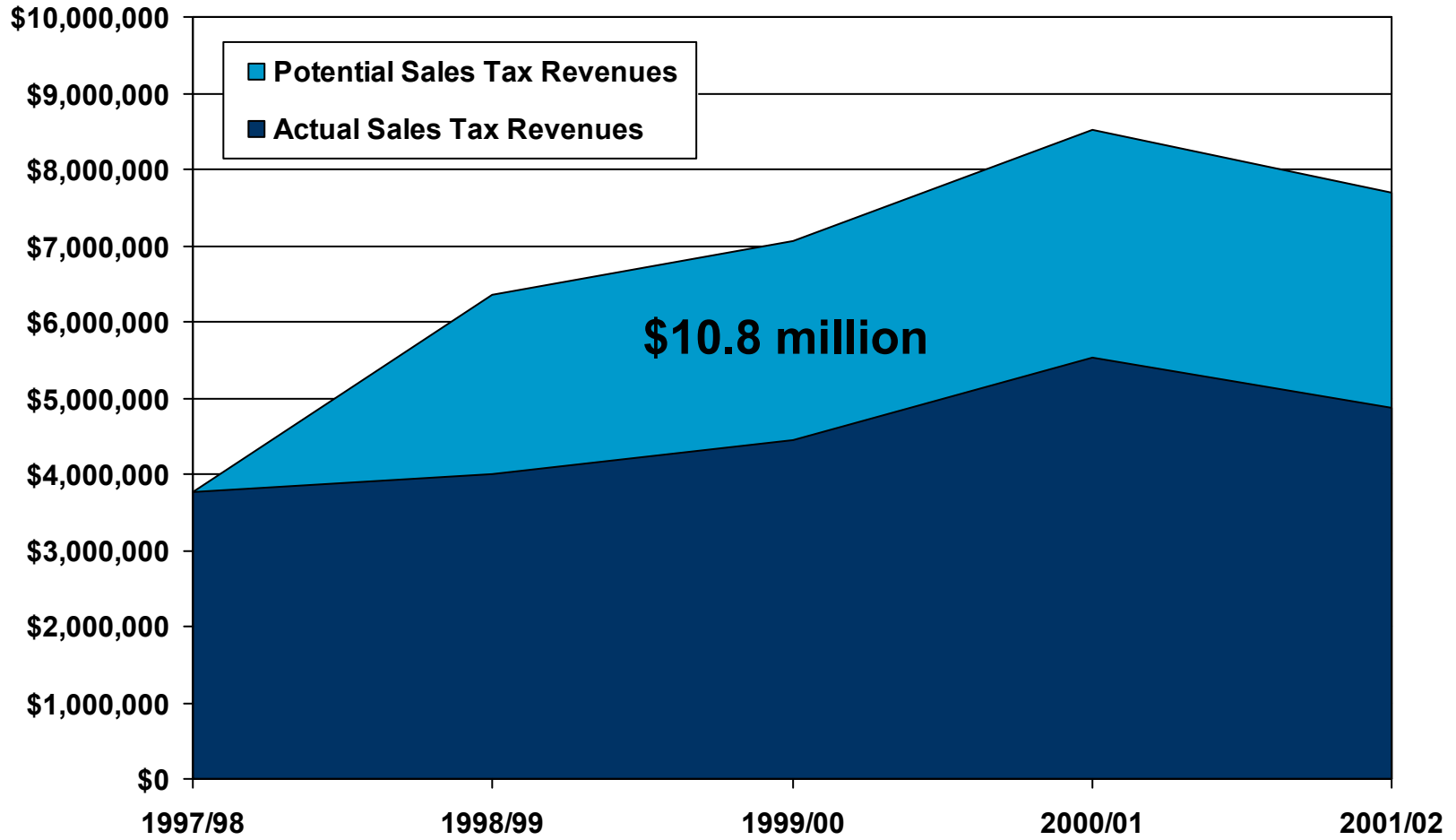


Comparison—Sales Tax Per Capita

Comparison – Sales Tax Per Capita		97/98	98/99	99/00	00/01	01/02	5 Yr
Type		Actuals	Actuals	Actuals	Actuals	Actuals	Change %
Santa Clara County	\$	106	179	199	240	217	104.7%
Morgan Hill		101	125	142	160	140	38.6%

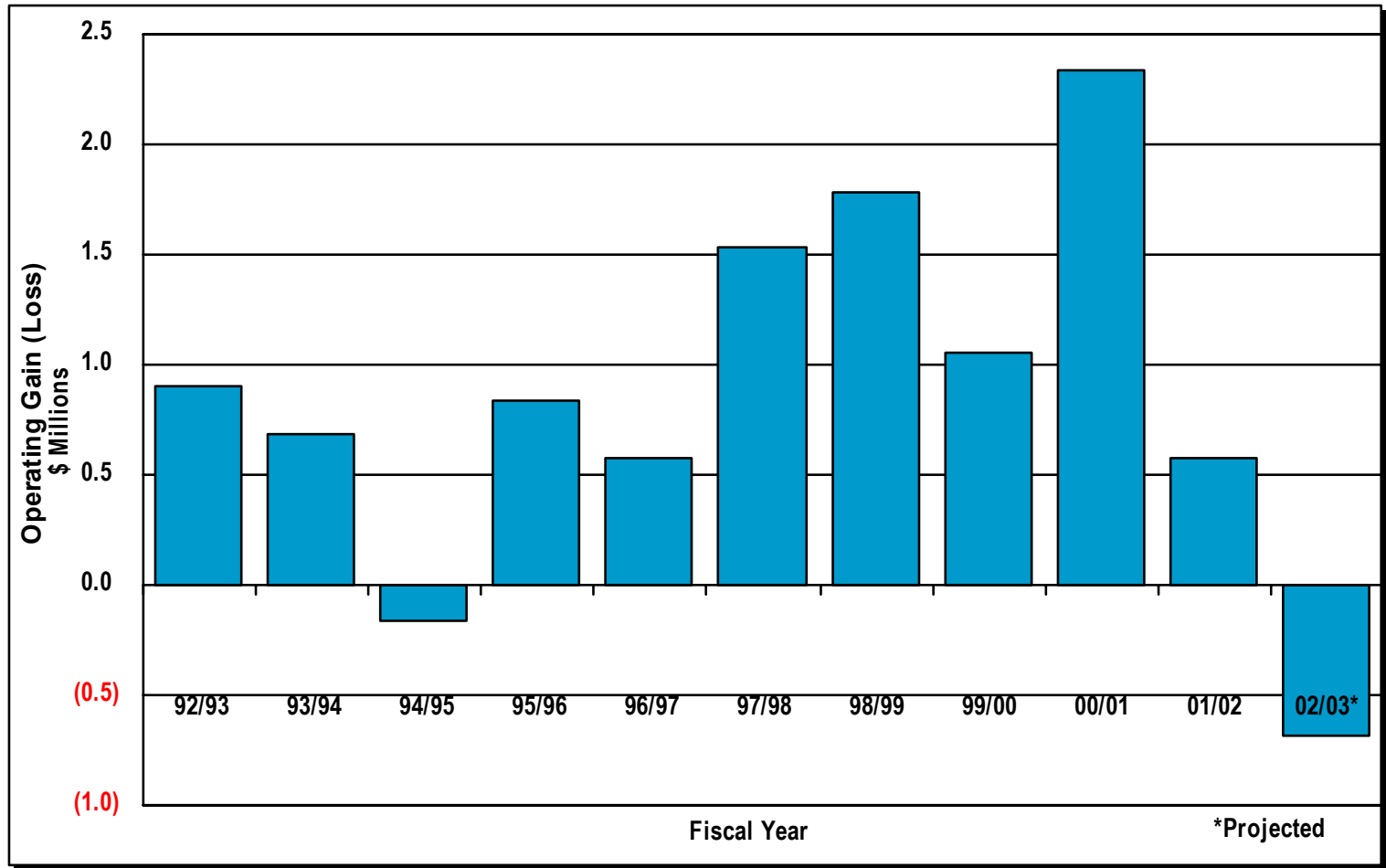


What if Morgan Hill's Sales Tax grew at the County Average Rate?



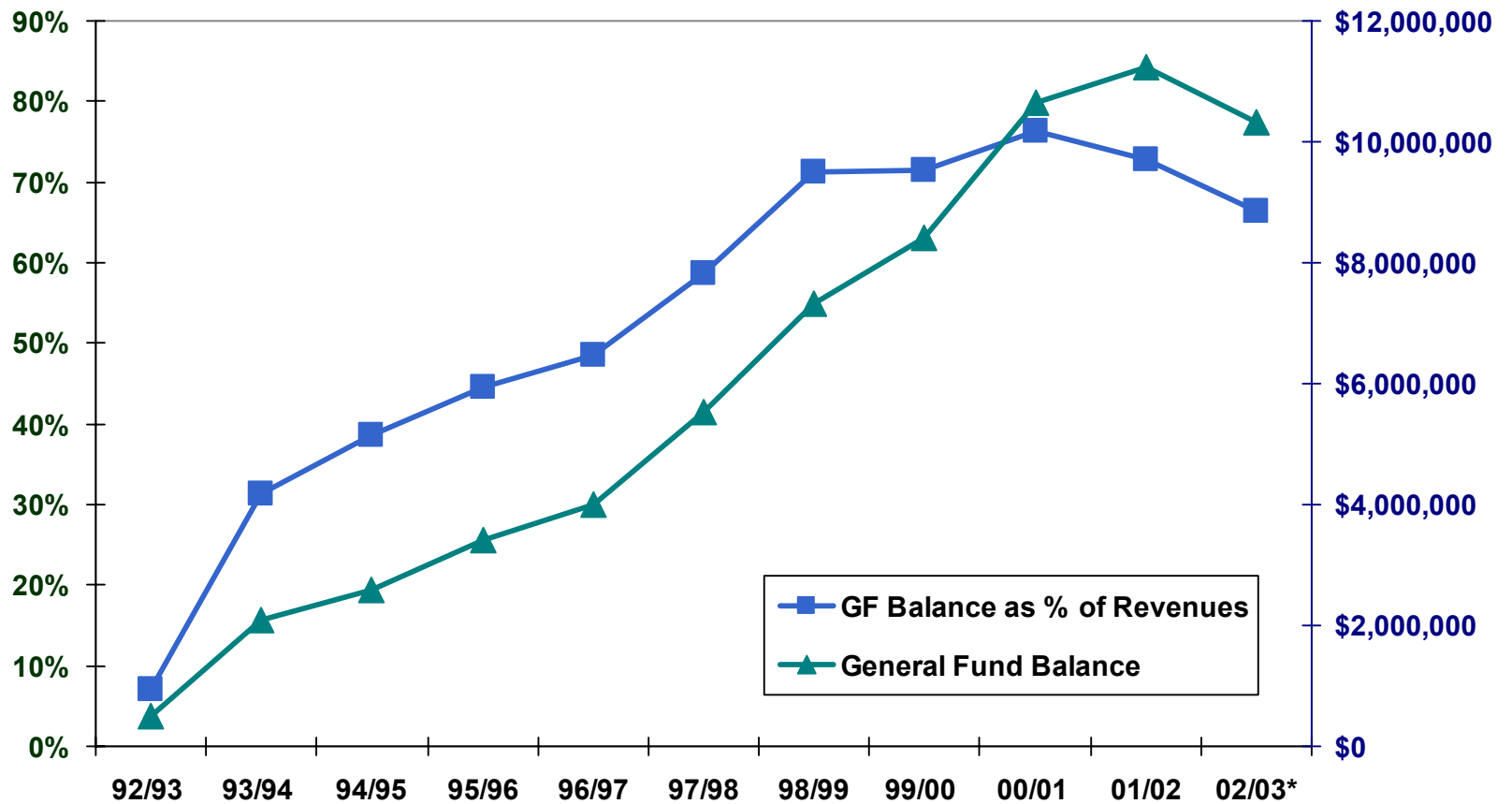
General Fund Gain (Loss)

Fiscal Years 1992/03 Through 2002/03

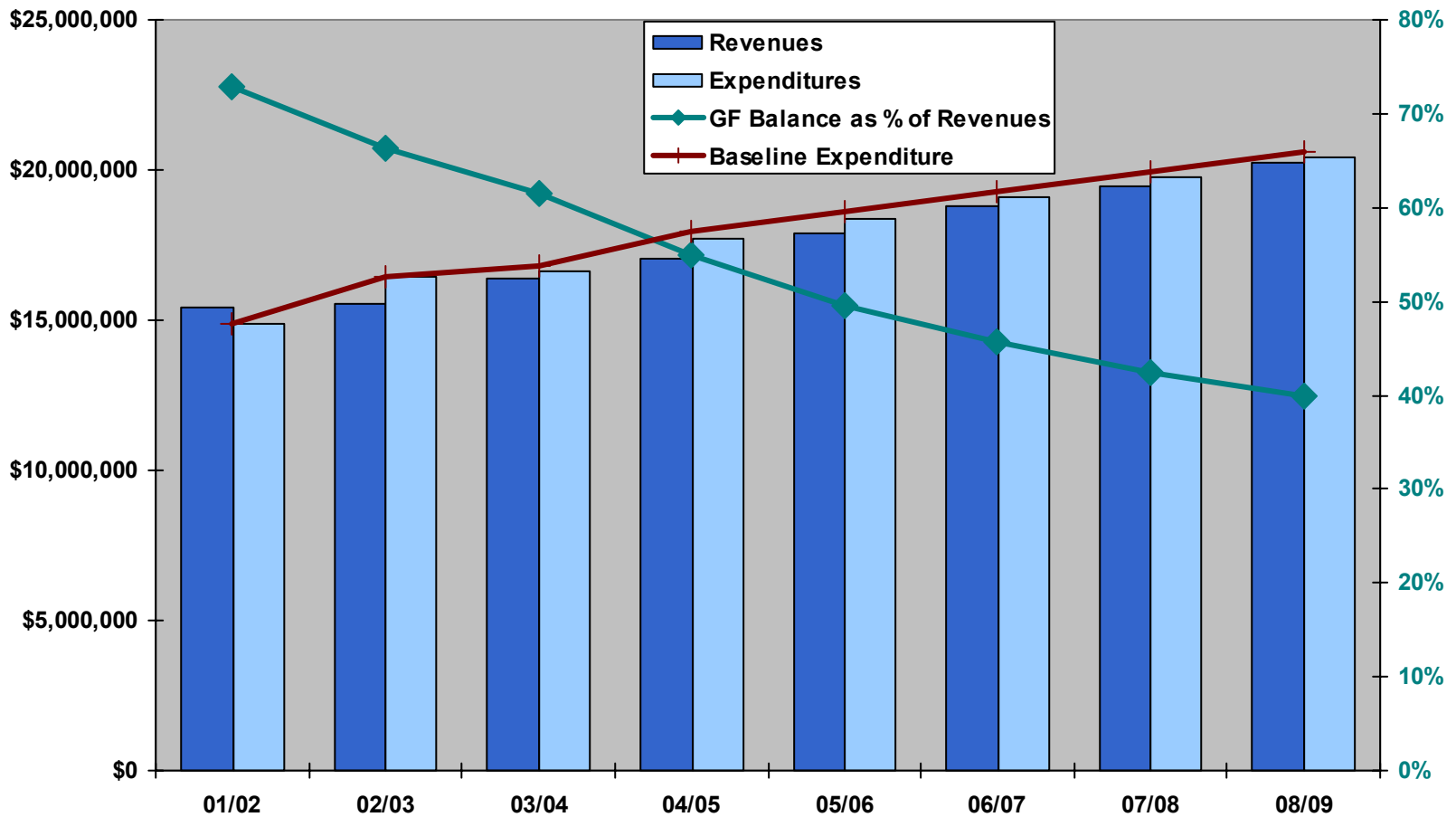


*Does not include \$212,000 in prior year encumbrances & rebudgeted projects financed in prior year

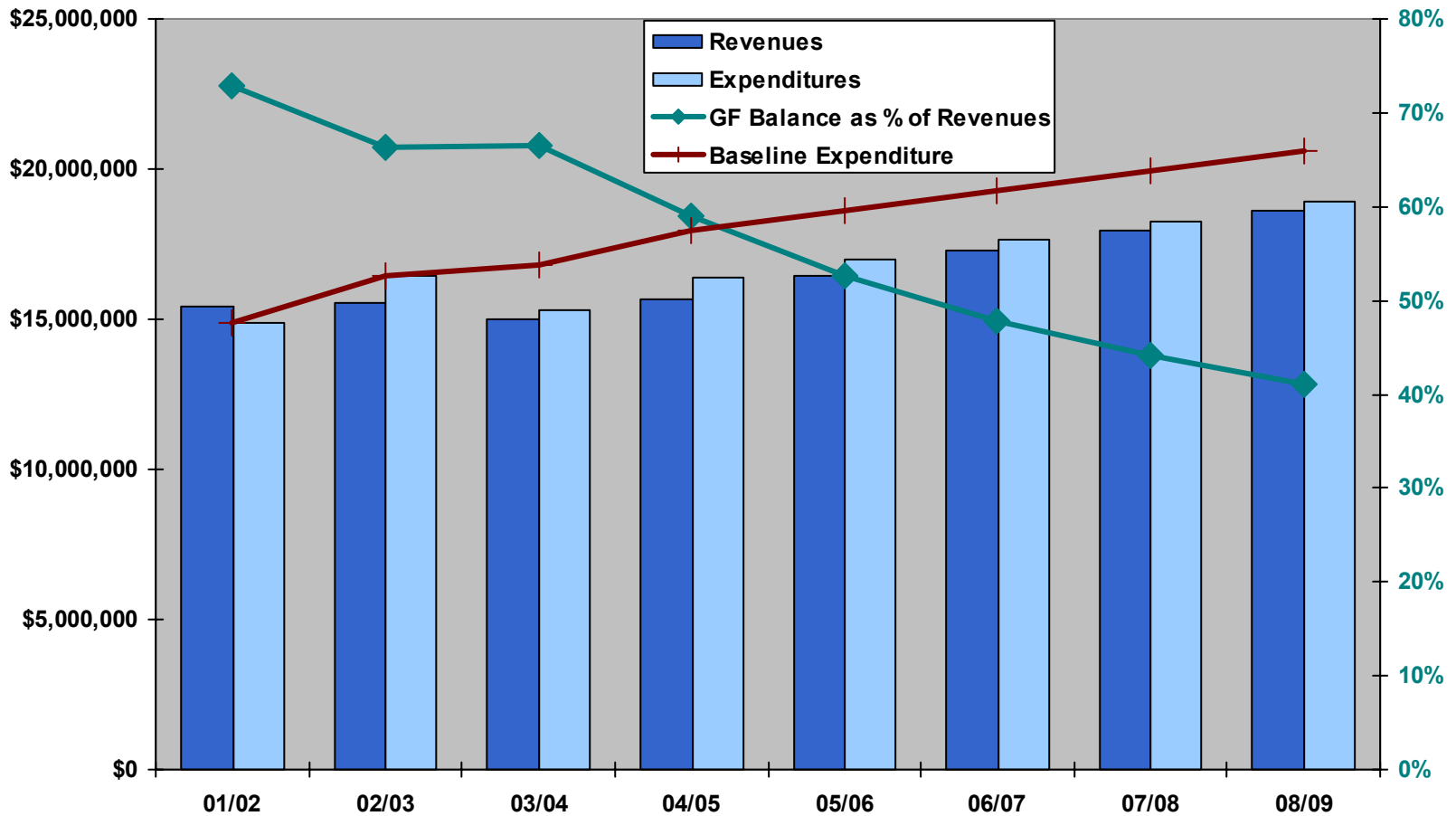
General Fund Balance History



Maintaining GF Reserves at 40% (With No VLF Take-Away)



Maintaining GF Reserves at 40% (After VLF Take-Away)





CITY COUNCIL STAFF REPORT

MEETING DATE: February 5, 2003

MID-YEAR 2002/03 BUDGET ADJUSTMENTS

RECOMMENDED ACTION:

Approve proposed mid-year budget adjustments for 2002/03

EXECUTIVE SUMMARY: Staff has reviewed the 2002/03 Budget at mid-year. In reviewing expenditure activity for all funds, staff identified certain situations where there is a need for accounting corrections and where expenditures are projected to exceed the existing budget by year-end. To amend the budgets for these projected expenditures, we recommend the City Council approve the budget adjustments proposed on attached Exhibit A. The Exhibit includes necessary corrections to the General Fund budget for additional litigation related costs, to the Fire Impact Fee Fund budget for Morgan Hill's contribution to the Dunne Hill Fire Station Remodel project that was approved by the City Council in July 1998, but not paid until this fiscal year and not included in the 2002/03 budget, and to the Unemployment Insurance Fund budget for increased unemployment claims costs. In addition, Exhibit A includes increases in various assessment district budgets for unanticipated bond calls that have retired assessment district bonds being repaid by property owners.

FISCAL IMPACT: The above changes result from the incurrence of necessary costs. The effects on fund balances for these funds are described on the attached Budget Scorecards.

Agenda Item # 2

Prepared By:

Finance Director

Submitted By:

City Manager

mid0203

SUMMARY OF MID-YEAR BUDGET ADJUSTMENTS
2002/03

EXHIBIT A

FUND	DEPT.	ACCOUNT NO.	ACCOUNT TITLE	APPRO- PRIATION INCREASE (DECREASE)	BUDGETED FUND BALANCE (DECREASE)	EXPLANATION
<u>GENERAL FUND</u>						
CITY ATTORNEY	DEPT. 1500	42230	Special Counsel	50,000	(50,000)	Provide for fire related litigation
<u>FIRE IMPACT FEE FUND 313</u>						
FIRE MITIGATION	DEPT. 8085	86340	Site and Building Improvements	150,000	(150,000)	County Fire Dunne Hill Station Remodel
<u>COCHRANE BUSINESS PARK ASSESSMENT DISTRICT 545</u>						
COCHRANE BUS	DEPT. 8307	44990	Principal	300,000	(300,000)	Called bonds with excess funds
		44991	Interest	9,000	(9,000)	Called bonds with excess funds
<u>UNEMPLOYMENT INSURANCE FUND 760</u>						
Unemployment Ins	Dept. 8230		Claims - Unemployment	25,000	(25,000)	More unemployment claims
<u>MORGAN HILL BUSINESS RANCH II ASSESSMENT DISTRICT FUND 842</u>						
M H BUS RANCH	DEPT. 8310	44990	Principal	120,000	(120,000)	Called bonds with excess funds
			Interest	4,000	(4,000)	Called bonds with excess funds
<u>MORGAN HILL BUSINESS RANCH 1998 ASSESSMENT DISTRICT FUND 843</u>						
M H BUS RANCH	DEPT. 8357	44990	Principal	215,000	(215,000)	Called bonds with excess funds
			Interest	7,000	(7,000)	Called bonds with excess funds
<u>MADRONE BUSINESS PARK ASSESSMENT DISTRICT (TAX EXEMPT) FUND 845</u>						
MADRN TAX-EXMP	DEPT 8361	44990	Principal	20,000	(20,000)	Called bonds with excess funds
		44991	Interest	1,000	(1,000)	Called bonds with excess funds
<u>MADRONE BUSINESS PARK ASSESSMENT DISTRICT (TAXABLE) FUND 846</u>						
MADRONE BP TAX	DEPT 8362	44990	Principal	90,000	(90,000)	Called bonds with excess funds
		44991	Interest	3,000	(3,000)	Called bonds with excess funds
TOTAL BUDGET ADJUSTMENTS				994,000	(994,000)	



CITY COUNCIL STAFF REPORT

MEETING DATE: February 5, 2003

TITLE: AGREEMENT WITH THE STROMBOTNE LAW FIRM

RECOMMENDED ACTIONS:

Authorize the City Manager to execute an Agreement with the Strombotne Law Firm.

EXECUTIVE SUMMARY:

The City contracted with the Strombotne Law Firm to assist the City with its defense in the cross-complaint filed by Ameron International Corporation. This matter commenced trial on January 13, 2003, in the Santa Clara County Superior Court. It is anticipated the trial will last five weeks. The attached Consultant Agreement is in the amount of \$90,000. This amount should be sufficient to cover the fees and costs associated with the trial of this matter. Therefore, staff is recommending that Council approve the attached Consultant Agreement in the amount of \$90,000.

FISCAL IMPACT:

The cost of this agreement can be accommodated in the City Attorney's Office budget. No additional appropriation is necessary at this time.

Agenda Item # 3

Prepared By:

(Title)

Approved By:

(Department Director)

Submitted By:

City Manager



CITY COUNCIL STAFF REPORT

MEETING DATE: February 5, 2003

RESOLUTION AMENDING CITY'S CONFLICT OF INTEREST CODE REPORTING CATEGORIES

RECOMMENDED ACTION:

1. Adopt Resolution amending the list of positions subject to the City's Conflict of Interest Code.

EXECUTIVE SUMMARY:

The Political Reform Act, Government Code section 87100 and following, requires the City to designate those positions in city government which are required to file Disclosure Statements, which detail the economic interests which could constitute conflicts of interests. The PRA further requires the City to periodically update its list as positions and/or circumstances change.

City staff has reviewed the list of positions, and recommends the following updates to comport with the current employee classifications:

1. Replacement of the Police Captain position with the recently-created Police Lieutenant position.
2. Deletion of Financial Operation Supervisor.
3. Addition Senior Project Manager/Community Buildings.
4. Addition of Event Coordinator.
5. Addition of Facilities Maintenance Specialist.

FISCAL IMPACT:

No budget adjustment is required.

Agenda Item # 4

Prepared By:

City Attorney

Submitted By:

City Manager

RESOLUTION NO. 5634

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL AMENDING RESOLUTION NO. 5472 PERTAINING TO THE CITY'S CONFLICT OF INTEREST CODE BY AMENDING APPENDIX A (DESIGNATED POSITIONS) TO REFLECT CURRENT CITY POSITIONS AND DISCLOSURE CATEGORIES

WHEREAS, pursuant to Government Code 87300, Resolution No. 1827 was adopted on September 21, 1983, and subsequently amended by Resolution Nos. 4026 on January 21, 1987; 4152 on February 3, 1988; 4354 on March 7, 1990; 4445 on March 20, 1991; 4529 on December 11, 1991; and 4548 on April 1, 1992; 4660 on March 3, 1993; 4822 on September 7, 1994; 5377 on April 26, 2000; 5463 on March 28, 2001; and 5472 on May 2, 2001; and,

WHEREAS, the Political Reform Act requires every local government agency to review its Conflict of Interest Code biennially or as deemed appropriate; and,

WHEREAS, a review has been conducted and a determination has been reached that certain amendments are required to update the Code and maintain its accuracy, specifically the deletion of Police Captain and Financial Operations Supervisor, and addition of Police Lieutenant, Senior Project Manager/Community Buildings, Event Coordinator, and Facilities Maintenance Specialist positions; and,

NOW, THEREFORE, BE IT RESOLVED THAT THE CITY COUNCIL OF THE CITY OF MORGAN HILL further amends Resolution No. 1827 by deleting the existing Appendix A and replacing it with a revised Appendix A, a copy of which is attached and incorporated by this reference as though fully set forth herein.

PASSED AND ADOPTED by the City Council of Morgan Hill at a Regular Meeting held on the 5th day of February, 2003 by the following vote:

AYES: COUNCIL MEMBERS:
NOES: COUNCIL MEMBERS:
ABSTAIN: COUNCIL MEMBERS:
ABSENT: COUNCIL MEMBERS:

🏛️ CERTIFICATION 🏛️

I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA, do hereby certify that the foregoing is a true and correct copy of Resolution No. 5634 adopted by the City Council at a Regular Meeting held on February 5, 2003.

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.

DATE: _____

IRMA TORREZ, City Clerk

APPENDIX A

Specified below is the following information:

- A. Each designated position in the local agency required to fill Disclosure Statements.**
- B. Category 1 is defined as:**
A designated employee must report all interests in real property having a direct or indirect relationship to, and which may foreseeably be affected by, the official duties and responsibilities of each such designated position.
- C. Category 2 is defined as:**
A designated employee in this category must report all investments having a direct or indirect relationship to, and which may foreseeably be affected by, the official duties and responsibilities of each such designated position.
- D. Category 3 is defined as:**
A designated employee in this category must report income and business entities in which he or she is a director, officer, partner, trustee, employee or holds any position of management having a direct or indirect relationship to, and which may foreseeably be affected by, the official duties and responsibilities of each such designated position.

Persons Subject To The Conflict of Interest Code	Disclosure Category
Council Services & Records Manager/City Clerk	1,2,3
Chief of Police	1,2,3
Police Lieutenant	1,2,3
City Attorney	1,2,3
Deputy City Attorney	1,2,3
City Manager	1,2,3
Assistant to the City Manager	1,2,3
Director of Business Assistance and Housing Services	1,2,3
Business Assistance and Housing Services Manager	1,2,3
Business Assistance & Housing Analyst	1,2,3
Housing Rehabilitation Coordinator	1,2,3
Director of Community Development	1,2,3
Chief Building Official	1,2,3
Building Inspectors	1,2,3
Code Enforcement Officer	1,2,3
Environmental Programs Manager	1,2,3
Facilities Maintenance Coordinator	1,2,3
Planning Manager	1,2,3
Senior Planner	1,2,3
Associate Planner	1,2,3
Finance Director	1,2,3
Assistant Director of Finance	1,2,3
Budget Manager	1,2,3
Director of Public Works/City Engineer	1,2,3
Deputy Public Works Director/Operations	1,2,3
Deputy Public Works Director/Engineering	1,2,3
Senior Engineer	1,2,3
Associate Engineer	1,2,3
Human Resources Manager	1,2,3
Human Resources Supervisor	1,2,3
Recreation Manager	1,2,3
Recreation Supervisor	1,2,3
Events Coordinator	1,2,3
Architectural and Site Review Board	1,2,3
Corporation Yard Commission	1,2,3
Library Commissioners	1,2,3
Parks and Recreation Commissioners	1,2,3
Planning Commissioners	1,2,3
Rent Stabilization Commissioners	1,2,3
Consultants*	1,2,3

***Consultants shall be included in the list of designated employees and shall disclose pursuant to Category 1, 2, and 3 subject to the following limitation:**

The City Manager may determine in writing that a particular consultant, although a "designated position" is hired to perform a range of duties that is limited in scope and thus is not required to fully comply with the disclosure requirements in this section. Such written determination shall include a description of the consultant's duties and, based upon that description, a statement of the extent of disclosure requirements. The City Manager's determination is a public record and shall be retained for public inspection in the same manner and location as this conflict of interest code.

Exhibit 1

**CONFLICT OF INTEREST CODE FOR
THE CITY OF MORGAN HILL**

The Political Reform Act, Government Code Sections 81000, et seq., requires state and local government agencies to adopt and promulgate Conflict of Interest Codes. The Fair Political Practices Commission has adopted a regulation, Title 2, California Code of Regulations, Section 18730, which contains the terms of a standard Conflict of Interest Code which can be incorporated by reference, and which may be amended by the Fair Political Practices Commission to conform to amendments in the Political Reform Act after public notice and hearings. Therefore, the terms of Title 2, California Code of Regulations Section 18730, and any amendments to it duly adopted by the Fair Political Practices Commission, are hereby incorporated by reference. These terms, along with the attached Appendix which designates officials and employees subject to the code and disclosure categories, constitute the Conflict of Interest Code of the City of Morgan Hill.

Pursuant to Section 4(A) of the standard Code, designated employees shall file statements of economic interests with the agency. Upon receipt of the statements of the designated employees, the members of the City Council, the City Manager, the City Attorney; the City Treasurer and the Planning Commission; City Clerk of the City of Morgan Hill shall make and retain a copy and forward the original of these statements to the Fair Political Practices Commission.



CITY COUNCIL MEETING STAFF REPORT

MEETING DATE: February 5, 2003

TITLE: AGREEMENT TO PARTICIPATE IN LOCAL CALIFORNIA IDENTIFICATION SYSTEM

RECOMMENDED ACTION(S):

1. **Authorize the City Manager to sign the Amended and Restated Agreement to Provide Local Agency Access to California Identification System**
2. **Authorize payment of \$32,741.00 as Morgan Hill's contribution to the Santa Clara County CAL-ID RAN Policy Board**

Agenda Item # 5

Prepared By:

Terrie Booten

Captain

Approved By:

Gerald T. Galvin

Chief of Police

Submitted By:

Ed Tewes

City Manager

EXECUTIVE SUMMARY: Since 1988 the local law enforcement agencies in Santa Clara County have joined together to provide access to the California Identification System. The California Identification System, known as CAL -ID, is a clearing house used for the identification of persons throughout the State of California. Through participation in this system, local agencies can submit fingerprint identifications for comparison with data supplied by other law enforcement agencies in the State. Since its inception the system has proven very effective in the identification of long sought after suspects and the correct identification of people arrested who provide false identification. Before CAL-ID persons frequently slipped "through the cracks" and escaped justice simply by providing a false name when they were arrested. It was often months after an arrest, if at all, that these people were correctly identified.

The legislation that created CAL-ID required the formation of local policy boards to oversee CAL-ID operations within a region, to acquire and maintain the equipment necessary to operate the system, and to coordinate the local law agencies access to the system. The Santa Clara County CAL-ID RAN Policy Board is our local policy board. Membership of the Board is stipulated in the legislation. Standing members of the Board include the Sheriff, the District Attorney, and the San Jose Police Chief . In addition there are rotating seats for a Mayor from a local jurisdiction and another local Police Chief as appointed by the County Chief's Association.

All incorporated cities in Santa Clara County and the County participate in the local CAL-ID board. The CAL-ID contribution for Morgan Hill is based on its percentage of population relative to all participating agencies except San Jose. San Jose provides an in-kind contribution of personnel and facilities. For FY 02-03 the contribution amount for Morgan Hill is \$32,741.00.

The City Council is requested to approve and authorize the City Manager to sign the CAL-ID agreement.

FISCAL IMPACT: The FY 02-03 contribution of \$32,741.00 has been included in the approved FY 02-03 budget (010-42231-3245).



CITY COUNCIL STAFF REPORT

MEETING DATE: FEBRUARY 5, 2003

ACCEPTANCE OF PUBLIC IMPROVEMENTS FOR MADRONE BUSINESS PARK

RECOMMENDED ACTION(S):

1. Adopt the attached resolution accepting the public improvements for Madrone Business Park.
2. Direct the City Clerk to file a Notice of Completion with the County Recorder's office.

EXECUTIVE SUMMARY: The public improvements for the Madrone Business Park involved the construction of Madrone Parkway through the project from Monterey Road to Cochrane Road (see location map attached as Exhibit "A"). All of the public improvements have been completed in accordance with the requirements of the Acquisition Agreement between the City of Morgan Hill and Toeniskoetter & Breeding, Inc. Development dated May 3, 2000 and as specifically set forth in the plans and specifications approved by the City.

FISCAL IMPACT: All City costs are paid by development fees.

Agenda Item # 6

Prepared By:

Senior Engineer

Approved By:

Public Works Director

Submitted By:

City Manager

RESOLUTION NO. 5635

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
MORGAN HILL ACCEPTING THE PUBLIC
IMPROVEMENTS FOR MADRONE BUSINESS PARK**

WHEREAS, Toeniskoetter & Breeding, Inc. Development, the developer of the Madrone Business Park, entered into a Acquisition Agreement on May 3, 2000; and

WHEREAS, Jim Ashcraft, Public Works Director, has certified in writing to the City Council that all of said improvements have been installed according to the City specifications and plans for said development,

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MORGAN HILL, CALIFORNIA, AS FOLLOWS:

1. The City Council hereby finds and determines that all public improvements required to be constructed pursuant to the above-mentioned Acquisition Agreement have been completed in accordance with the plans and specifications for said improvements.
2. This resolution shall constitute an interim acceptance of all said public improvements and the date of its passage shall constitute the starting day for computing the one year maintenance period.
3. The City Clerk, following adoption of this resolution, will file with the Recorder of Santa Clara County, California a Notice of Completion of the public improvements.
4. If requested by the developer, the City Clerk hereby is authorized to record a certified copy of this resolution with the Recorder of Santa Clara County, California.

PASSED AND ADOPTED by the City Council of Morgan Hill at a Regular Meeting held on the 5th Day of February, 2003, by the following vote.

AYES: **COUNCIL MEMBERS:**
NOES: **COUNCIL MEMBERS:**
ABSTAIN: **COUNCIL MEMBERS:**
ABSENT: **COUNCIL MEMBERS:**

🏛️ CERTIFICATION 🏛️

I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA, do hereby certify that the foregoing is a true and correct copy of Resolution No. 5635, adopted by the City Council at the Regular Meeting on February 5, 2003.

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.

DATE: _____

IRMA TORREZ, City Clerk

Record at the request of
and when recorded mail to:

CITY OF MORGAN HILL
CITY CLERK
17555 Peak Avenue
Morgan Hill, CA 95037

RECORD AT NO FEE PURSUANT TO GOVERNMENT CODE SECTION 6103

NOTICE OF COMPLETION

CITY OF MORGAN HILL

MADRONE BUSINESS PARK

NOTICE IS HEREBY GIVEN, pursuant to Section 3093 of the Civil Code of the State of California, that the Director of Public Works of the City of Morgan Hill, California, signed below, represents the City of Morgan Hill as the owner of the public improvements for the above named development. Said improvements were substantially completed on January 21, 2003, by Toeniskoetter & Breeding, Inc. Development, the developer of record and accepted by the City Council on February 5, 2003. Said improvements consisted of public streets, utilities and appurtenances.

Name and address of Owner: City of Morgan Hill
17555 Peak Avenue
Morgan Hill, California

Dated: _____, 2003.

Jim Ashcraft, Director of Public Works

I certify under penalty of perjury that the foregoing is true and correct.

Irma Torrez, City Clerk
City of Morgan Hill, CA
Date: _____



CITY COUNCIL STAFF REPORT

MEETING DATE: FEBRUARY 5, 2003

ACCEPTANCE OF COSMO/MONTEREY SANITARY SEWER REPLACEMENT PROJECT

RECOMMENDED ACTION(S):

1. Accept as complete the Cosmo/Monterey Sanitary Sewer Replacement Project in the final amount of \$653,250.11.
2. Direct the City Clerk to file the attached Notice of Completion with the County Recorder's office.

EXECUTIVE SUMMARY:

The contract for the Cosmo/Monterey Sanitary Sewer Replacement Project was awarded to Monterey Peninsula Engineering (MPE Engineering), by the City Council at their June 19, 2002, meeting in the amount of \$627,910. The scope of work consisted of replacing old sewer laterals and or undersized sewer lines on Cosmo Avenue, Monterey Road, Del Monte Avenue, Spring Avenue, Mathilda Court, and Foothill Court. During construction, five change orders totaling \$30,901 were issued for unforeseen conditions encountered during the installation of the sewer pipe. The final construction cost was \$653,250.11 which is less than the original amount plus the additional change orders. The difference was due to unit cost variances in the original bid schedule.

The work has been completed in accordance with the plans and specifications.

FISCAL IMPACT:

This project was budgeted in the 2001-02 Capital Improvements Program budget and the final payment was split between Upgrade Existing Pipelines (project #301093) in the amount of \$384,932 and Sanitary Sewer Replacement (project #302093) in the amount of \$268,318.11 for a final contract price of \$653,250.11. The allocated project construction cost including a 10% contingency was \$690,701. The remaining balance from allocation was \$37,450.89.

Agenda Item # 7

Prepared By:

Associate Engineer

Approved By:

Public Works Director

Submitted By:

City Manager

Record at the request of
and when recorded mail to:

CITY OF MORGAN HILL
CITY CLERK
17555 Peak Avenue
Morgan Hill, CA 95037

RECORD AT NO FEE PURSUANT TO GOVERNMENT CODE SECTION 27383

NOTICE OF COMPLETION
CITY OF MORGAN HILL
COSMO/MONTEREY SANITARY SEWER REPLACEMENT PROJECT

NOTICE IS HEREBY GIVEN, pursuant to Section 3093 of the Civil Code of the State of California, that the Director of Public Works of the City of Morgan Hill, California, on the 25th day of July, 2002, did file with the City Clerk of said City, the contract for performing work which was heretofore awarded to Monterey Peninsula Engineering, on June 19, 2002, in accordance with the plans and specifications for said work filed with the City Clerk and approved by the City Council of said City.

That said improvements were substantially completed on December 6, 2002, accepted by the City Council on February 5, 2003, and that the name of the surety on the contractor's bond for labor and materials on said project is the Continental Insurance Company.

That said improvements consisted of the construction and installation of all items of work provided to be done in said contract, all as more particularly described in the plans and specifications therefor approved by the City Council of said City.

Name and address of Owner: City of Morgan Hill
17555 Peak Avenue
Morgan Hill, California

Dated: _____, 2003.

Jim Ashcraft, Director of Public Works

I certify under penalty of perjury that the foregoing is true and correct.

Irma Torrez, City Clerk
City of Morgan Hill, CA
Date:



CITY COUNCIL STAFF REPORT

MEETING DATE: February 5, 2003

ACCEPT THE SLURRY SEAL AND ROADWAY REPAIR PROJECT

RECOMMENDED ACTION(S):

1. Accept as complete the Slurry Seal and Roadway Repair Project in the final amount of \$254,950.
2. Direct the City Clerk to file the attached Notice of Completion with the County Recorder's office.

Agenda Item # 8

Prepared By:

Junior Engineer

Approved By:

Public Works Director

Submitted By:

City Manager

EXECUTIVE SUMMARY:

The Slurry Seal and Roadway Repair Project was awarded to Silicon Valley Paving, by the City Council at their July 10, 2002, meeting in the amount of \$147,222. The original limit of work for the project resulted in the slurry sealing of Monterey Road from Cochrane to City Limit, Peppertree Area, and Jackson Oaks Area. In addition, sections of Tenant Avenue were removed and replaced with asphalt concrete.

Additional funds were requested and approved by the City Council at their September 4, 2002 meeting in the amount of \$76,315. Work included pavement repairs at Dunne Avenue between Murphy and Peppertree Avenue and Murphy Springs/Fox Hollow Area.

To resurface/slurry seal at the Calle Enrique neighborhood, additional funds were again requested and approved by the City Council at their November 20, 2002 meeting in the amount of \$30,250. Work includes asphalt concrete repairs, crack sealing, and slurry sealing.

The work has been completed in accordance with the plans and specifications.

FISCAL IMPACT:

This project was budgeted in the 2002-03 Capital Improvements Program budget under Project 519096, Street Repairs, with a budget of \$1,467,000. The allocated project construction cost including a 10% contingency was \$161,945. The contract was awarded in the amount of \$147,222.75 and the final contract price is \$254,950.

Irma Torrez, City Clerk
City of Morgan Hill, CA
Date:



CITY COUNCIL STAFF REPORT

MEETING DATE: FEBRUARY 5, 2003

AMEND PROFESSIONAL SERVICES AGREEMENT FOR APPRAISAL SERVICES FOR HULBERG & ASSOCIATES FOR TENNANT AVENUE WIDENING

RECOMMENDED ACTION(S): Approve additional scope of work for Hulberg & Associates in the amount of \$7,500 and authorize the City Manager to execute a second amendment to the existing professional services agreement for appraisal services for the Tennant Avenue Widening Project. The total second amended professional services agreement shall not exceed \$27,499.

EXECUTIVE SUMMARY: On January 23, 2002, the City Manager awarded a professional services agreement to Hulberg & Associates for \$18,500 for acquiring right-of-way needed for the purpose of widening the northern side of Tennant Avenue, between Vineyard and Monterey Road.

On November 15, 2002, the City Manager amended the professional services agreement to include additional research and analysis due to a possible "Nexus" occurrence for a total cost of \$1,499.30.

The proposed additional scope of work will include updating and incorporating construction easement plats and legal descriptions into the original appraisals. This necessary step must be taken if condemnation is needed to acquire the right-of-way and demolish three homes for the purpose of widening Tennant Avenue. Every effort will be utilized to negotiate with the property owners for purchase agreements, but condemnation may be required as the City's final option if an agreement cannot be reached in a reasonable time frame. The additional work for \$7,500, attached as Exhibit A, shall commence upon Council's approval.

FISCAL IMPACT: The total cost for the Hulberg & Associates contract as amended is \$27,499. Funds are budgeted for fiscal year 2002-2003 for these professional services from Capital Improvement project number 507B99, Tennant Avenue Widening.

Agenda Item # 9

Prepared By:

Associate Engineer

Approved By:

Public Works Director

Submitted By:

City Manager



CITY COUNCIL STAFF REPORT

MEETING DATE: February 5, 2002

EMERGENCY AUTHORIZATION FOR STORM DRAIN REPAIR ALONG EAST DUNNE AVENUE, TRAIL DRIVE, WOODLAND AVENUE, AND DIANA COURT

RECOMMENDED ACTION(S):

1. Adopt the attached Resolution declaring the need for this emergency expenditure.
2. Approve expenditure of \$25,000 from the 2002-03 Public Works - Streets Division Operating Budget to fund an emergency Storm Drain System repair on Dunne, Trail, and Rolling Hills Drive at Woodland Avenue, and Diana Court.

EXECUTIVE SUMMARY: During heavy rains in mid December of 2002, several areas within our storm drain system became stressed beyond capacity due to heavy runoff in ditches and piping systems. Heavy runoff carried excessive silt and debris blocking inlets resulting in flooding to public and private property. These areas were specifically E. Dunne Avenue near Old Oak Lane, Trail Drive between Vista Del Valle and Fountain Oaks Drive, Rolling Hills Drive at Woodland Avenue, and a drainage ditch south of Diana Court. The most substantial flooding on private property occurred at Jackson Elementary School associated with the Trail Drive site.

Staff evaluated each of these incidents where damage occurred and identified repair work needed to better guard against future blockage of our storm drain system due to debris and silt. When completed, the repair work identified will help prevent future flooding of public roadways and damages to adjacent private property.

Due to the emergency nature of some of this repair work, staff directed Trincherro Construction Inc. to complete repairs at cost of \$13,000 to date. However, additional work needs to be completed to finish repairs at the areas listed above.

At this time staff is requesting a total of \$25,000 to be authorized for expenditure which includes the \$13,000 already expended plus an additional \$12,000 to complete all repairs. These repairs will allow us to conduct a more proactive approach to storm drain maintenance by providing facilities that can be more readily serviced by maintenance personnel before the onset of storm activity.

Our finding of a public emergency to waive the public bidding process requires a four/fifths affirmative vote of the Council.

FISCAL IMPACT: Sufficient funds exist in the 2002-03 Public Works Street Operations Budget to fund this emergency work.

Agenda Item # 10

Prepared By:

Deputy Director-PW

Approved by:

Public Works Director

Submitted By:

City Manager

RESOLUTION NO. 5636

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL
DECLARING THE NEED FOR AN EMERGENCY EXPENDITURE FOR STORM
DRAIN REPAIR ON DUNNE AVENUE, TRAIL DRIVE, ROLLING HILLS DRIVE
AT WOODLAND AVENUE, AND DIANA COURT IN ACCORDANCE WITH
PUBLIC CONTRACT CODE 20168**

WHEREAS, an emergency currently exists for storm drain system repair located on Dunne Avenue, Trail Drive, and Rolling Hills Drive at Woodland Avenue, and Diana Court; and

WHEREAS, unless repair is completed drainage waters cannot be conveyed through this area; and

WHEREAS, if storm drain and other drainage waters cannot be conveyed through this area, further damages to public improvements or local flooding potentially causing private property damages could occur; now

THEREFORE, BE IT RESOLVED by the City Council of the City of Morgan Hill that it does resolve, determine and order the following:

1. Emergency Storm Drain system repair is needed to properly convey public drainage waters on Dunne Avenue, Trail Drive, and Rolling Hills Drive at Woodland Avenue, and Diana Court.
2. By a majority vote of those present at the City Council meeting on February 5, 2002, the Council finds, based upon the foregoing reasons, that the immediate preservation of the public peace, health and safety requires said expenditure to be made without competitive bids.
3. The sum of \$25,000 is hereby approved for expenditure for emergency storm drain repair on E. Dunne Avenue, Trail Drive, Rolling Hills Drive at Woodland Avenue, and Diana Court.

PASSED AND ADOPTED by the City Council of Morgan Hill at a Regular Meeting held on the 5th day of February 2003 by the following vote:

AYES: COUNCIL MEMBERS:
NOES: COUNCIL MEMBERS:
ABSENT: COUNCIL MEMBERS:
ABSTAIN: COUNCIL MEMBERS:

CERTIFICATION

I, **IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA**, do hereby certify that the foregoing is a true and correct copy of Resolution No. 5636, adopted by the City Council at the Regular City Council Meeting of February 5, 2003.

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.

DATE: _____

IRMA TORREZ, City Clerk



CITY COUNCIL STAFF REPORT

MEETING DATE: February 5, 2003

PAYMENT OF AN OPEN SPACE IN LIEU FEE FOR THE OAK CREEK AND CENTRAL PARK DEVELOPMENTS

RECOMMENDED ACTION(S):

Motion to approve request to pay an open space fee in lieu of each Transfer Development Credit (TDC) commitment for the Oak Creek development and the Central Park development Phases 2 through 4.

EXECUTIVE SUMMARY:

Under the Open Space Category of the City's Residential Development Control System (RDCS), applicants competing for a residential building allotment may commit to the purchase of transferable development credits (TDC's) as a means to preserve open space lands. By policy, projects of less than 25 units and affordable housing projects are allowed to make monetary contributions in-lieu of the purchase of TDCs. In December 2002, the Council amended this policy to allow market rate projects to pay an in lieu fee when a developer is unable to negotiate the purchase of TDC's. Developers commit to purchase one TDC for every 25 dwelling units in a residential development. The current open space fee is \$32,179 in lieu of each TDC commitment.

Mr. Scott Schilling, developer of the Oak Creek subdivision on Watsonville Road at Santa Teresa Boulevard, and the Central Park subdivision on East Central Avenue, is requesting approval to pay the in lieu fee for the balance of the two project's TDC commitment. The Oak Creek project consists of 119 dwelling units for a total commitment of five (5) TDCs. The Central Park project through Phase 4 consists of 99 units for a commitment of four (4) TDCs. According to city records, Mr. Schilling has purchased five TDCs, four credits assigned to the Oak Creek project, and one credit assigned to the Central Park project. To date, Mr. Schilling has been unable to secure additional TDCs from property owners. Therefore, the balance of the two project's TDC commitment is four (4).

Although the current open space fee is \$32,179 for every 25 dwelling units, staff believes a more equitable approach would be to require the developer to pay the open space in lieu fee in effect at the time the project was required to obtain building permits. The open space fee is adjusted annually based on the percent increase or decrease in the price of a single family home in Santa Clara County (see attached table). Based on this index, the Oak Creek project would pay **\$25,000** in lieu of one TDC and would receive credit for the four TDCs that were purchased previously. The Central Park project would receive credit for one TDC purchased previously and would pay \$25,000 in lieu of the first TDC and \$62,095.12 in lieu of the second and third TDCs for the total TDC commitment through phase 4 of the development. The total open space fee for Central Park would be **\$87,095.12**.

FISCAL IMPACT: No budget adjustment required.

Agenda Item # 11

Prepared By:

Planning Manager

Approved By:

**Community
Development Director**

Submitted By:

City Manager

**CITY OF MORGAN HILL
JOINT SPECIAL AND REGULAR REDEVELOPMENT AGENCY AND
SPECIAL CITY COUNCIL MEETING
MINUTES – JANUARY 22, 2003**

CALL TO ORDER

Chairperson/Mayor Kennedy called the meeting to order at 5:04 p.m.

ROLL CALL ATTENDANCE

Present: Agency/Council Members Carr, Tate and Chairperson/Mayor Kennedy
Late: Agency/Council Members Chang and Sellers (both arriving at 5:05 p.m.)

DECLARATION OF POSTING OF AGENDA

Agency Secretary/City Clerk Torrez certified that the meeting's agenda was duly noticed and posted in accordance with Government Code 54954.2

Redevelopment Agency Action and City Council Action

CLOSED SESSIONS:

Agency Council/City Attorney Leichter announced the following closed session items.

1.

PUBLIC EMPLOYEE PERFORMANCE EVALUATION

Pursuant to Government Code 54957

Public Employee Performance Evaluation: City Manager

Attendees: City Council, City Manager

2.

CONFERENCE WITH LEGAL COUNSEL - ANTICIPATED LITIGATION

Significant Exposure/Initiation of Litigation

Authority: Government Code Sections 54956.9(b) & (c)

Number of Potential Cases: 2

3.

CONFERENCE WITH LEGAL COUNSEL - EXISTING LITIGATION

Legal Authority: Government Code Section 54965.9(a)

Case Name: Morgan Hill Unified School District v. Minter & Fahy

Case No.: Santa Clara County Superior Court, No. CV 772368

Attendees: City Council, City Manager, City Attorney, Mark Strombotne, Special Counsel

OPPORTUNITY FOR PUBLIC COMMENT

Chairperson/Mayor Kennedy opened the closed session items to public comment. No comments were offered.

ADJOURN TO CLOSED SESSION

Chairman/Mayor Kennedy adjourned the meeting to closed session at 5:06 p.m.

RECONVENE

Chairman/Mayor Kennedy reconvened the meeting at 7:10 p.m.

SILENT INVOCATION

PLEDGE OF ALLEGIANCE

At the invitation of Chairman/Mayor Kennedy, Bill Brown, President of the Morgan Hill Community Health Foundation, led the Pledge of Allegiance.

CLOSED SESSION ANNOUNCEMENT

Mayor Kennedy indicated that the City Manager's contract requires a semi annual review. Therefore, the City Council fulfilled a requirement of the contract by conducting a review. He announced that the Council is very pleased with the City Manager and believes that he is doing a great job, particularly in this time of financial crises that the State is in. The Council feels that it is important that it has an individual who has the experience and the breath of knowledge that City Manager Tewes has at the City's helm. The Council is pleased to have the City Manager leading the City at this critical time. He indicated that the Council has several other closed session items that have been continued to later in the meeting.

PUBLIC COMMENT

Mayor/Chairman Kennedy opened the floor to public comment for items not appearing on this evening's agenda. No comments were offered.

OTHER REPORTS

City Treasurer Roorda indicated that six months ago, the Council requested quarterly reports by the Finance and Audit Committee regarding the City finances, in particularly the general fund. He presented a power point presentation with the use of graphs that show how the City performed over the first six months of the fiscal year. He stated that there is uncertainty in the City's finances because of the State budget situation. He indicated that expenses have been cut by approximately \$500,000 in the first six months and that expenses are flat this year as compared to last year. He felt that there will be an opportunity to close the gap to address shortfall in revenues and what spending reduction the City has been able to achieve in the general fund to date. He said that the graphs show that the City can be more encouraged than it would otherwise be given the fact that the revenue trends tend to favor the second half of the year. He said that this should help close some of the current gaps that the City is facing. He said that finance staff will return to the Council with recommendations as to the additional steps that may need to be taken, if any, to help close the gap. He stated that the City's finances are all

without reference to the State and how it may impact the City.

City Manager Tewes assured the Morgan Hill community that the City's domestic water supply meets or exceeds all of the standards established by the state and the federal government. He said that recently there has been press attention to a concern about contamination in the ground water that is spreading to the south of Morgan Hill. Last year, in April, the City learned that one of its production wells south of Tennant Avenue showed for the first time levels of a contaminant known as perchlorate at a level that slightly exceeded the standards established by the state and federal government. Once the City found that the water did not meet standards, the City shut down the well and that it remains shut to this date. He said that the Council authorized the drilling of a supplemental well at another location. He said that the contamination was likely caused by a manufacturing plant that was formerly located north of the Tennant Avenue owned by the Olin Corporation and later by Standard Fusee. Staff discovered that there was a slight exceedance of the standard and that the City immediately closed down the well. The City recently tested all of its productive wells and that all have returned with the results that there is no perchlorate in the City's water supply being delivered to its customers. Recently, Olin Corporation has been working with the managers of the Santa Clara Valley Water District (SCVWD) and the Regional Water Quality Control Board to map the plume of the contamination. They have been testing wells, bringing to the public's attention the extent of contamination as far as 4.5 miles south of Morgan Hill. Last week, public notice was given to the community in an effort to bring this situation to the attention of the public who may be affected and to recommend that they have their private wells tested. He indicated that the SCVWD has delivered drinking water to 500 homes. He identified the hot line number for individuals south of Morgan Hill who may be interested in learning more about this issue. He said that the Regional Water Quality Control Board and the Water District will continue to monitor and to pursue their regulatory requirements to bring the ultimate clean up of the sites and to ensure the public's health and safety. He wanted to assure Morgan Hill residents and water customers that the water being delivered through the City's system meets and exceeds all the regulatory standards and does not contain perchlorate.

CONSENT CALENDAR:

Redevelopment Agency Action

Council Member Sellers requested that item 5 and 8 be removed from the Consent Calendar.

Action: *On a motion by Agency Member Tate and seconded by Agency Member Sellers, the Agency Board unanimously (5-0) approved Consent Calendar Items 1 and 2 as follows:*

1. **DECEMBER 2003 FINANCE AND INVESTMENT REPORT**
 Action: Accepted and Filed Report.
2. **ANNUAL STATE REDEVELOPMENT REPORTS FOR FISCAL YEAR**
 2001/2002

Action: ***Filed** the Fiscal Year 2001/2002 Redevelopment Agency's Annual Report of Financial Transactions, Housing Annual Report of Housing Activity, and Property Report.*

City Council Action

CONSENT CALENDAR:

Action: *On a motion by Council Member Tate and seconded by Council Member Sellers, the City Council unanimously (5-0) approved Consent Calendar Items 3, 4, 6 and 7 as follows:*

3. **AMENDMENT TO AGREEMENT WITH THE LAW FIRM OF ENDEMAN, LINCOLN, TUREK & HEATER**

Action: ***Authorized** the City Manager to Execute an Amended Agreement with the Law Firm of Endeman, Lincoln, Turek & Heater.*

4. **APPROVE PAYMENT TO SANTA CLARA COUNTY FOR VEGETATION ABATEMENT ON CITY-OWNED PROPERTY**

Action: ***Approved** Payment in the Amount of \$40,156.72 for Vegetation Abatement in FY 2001/2002.*

6. **ACCEPTANCE OF SUBDIVISION IMPROVEMENTS FOR TRACT 9451, CAPRIANO PHASE IV – Resolution No. 5631**

Action: *1) **Adopted** Resolution No. 5631, Accepting the Subdivision Improvements Included in Tract 9451, Commonly Known as Capriano Phase IV; and 2) **Directed** the City Clerk to File a Notice of Completion with the County Recorder's Office.*

7. **POLICY REVISION – RESIDENTIAL DEVELOPMENT CONTROL SYSTEM (RDOS), AFFORDABLE PROJECTS**

Action: ***Approved** the Recommended Policy Changes to Projects Competing Under the Affordable Housing Category.*

5. **INSTALLATION OF FOUR-WAY STOP SIGNS AT SPRING AVENUE/WILLOW CREEK DRIVE INTERSECTION**

Council Member Sellers stated that a few months ago, a group of citizens who reside around Spring Avenue brought a petition to the Council stating that they were concerned about stop signs. He said that staff worked with the citizens to ultimately get a stop sign installed where one was needed. These citizens thanked the Council but he felt that it was important to thank the citizens for working hard and going through the procedure the right way. He thanked staff and the neighbors for their hard work in making a hazardous situation safer.

Action: *On a motion by Council Member Sellers and seconded by Council Member Tate, the City Council **Received** the **Informational** report.*

8. RESTORATION OF VEHICLE LICENSE FEES – Resolution No. 5632

Council Member Sellers indicated that the Vehicle License Fees (VLF) were reduced with a promise made to cities to restore the funds that were cut. Now, that it comes time for the State to pay the VLF fees to cities in this budget crises year, they will not do so. He said that these were funds that were promised to cities many years ago as on going source of revenue to local communities. The loss of revenues is a concern to a lot of cities, some of which have a significant part of their budgets tied to Vehicle License Fees. He felt that it was important that citizens are aware that these are funds that were promised by the state and need to be restored. The City is asking that the promise made by the State be kept.

Mayor Kennedy stated that the Santa Clara County Cities association is joining with the Peninsula Division of the League of California Cities to take a strong position in opposing any take away of the Vehicle License Fees which would have very serious negative effects on the budgets of all cities and counties throughout the state. He felt that it was unconscionable for the Governor to propose to balance the state's budget on the backs of cities who have diligently done their job to guard their limited resources and to build their revenue base. He stated that the City would be working with the League of California Cities and the Santa Clara County Cities Association and other groups to lobby to protect these revenues.

Action: *On a motion by Council Member Sellers and seconded by Council Member Tate, the City Council unanimously (5-0) **Adopted** Resolution No. 5632 Related to Restoration of Vehicle License Fees.*

City Council Action

OTHER BUSINESS:

9. PUBLIC MEETING REGARDING WATER AND SEWER RATES

Director of Finance Dilles presented the staff report. He indicated that on November 13, 2002, the Council directed staff to return with a public hearing. He stated that staff was instructed to analyze the target zone for each of the three recommended reserves. He indicated that the consultant would address water rates as they compare with other jurisdictions, including Gilroy, as well as explaining the reserves, over time, as the City looks at its fund balances and reserves. He stated that staff still recommends the three reserves be implemented but advises that the rate stabilization reserve is optional and is at the Council's discretion. He indicated that the Finance and Audit Committee has looked at the rates again following the November 13, 2002 workshop and is recommending that the City move ahead with a series of 2% increases. Should the Council decide not to fund the Rate Stabilization reserve, staff would propose implementing each of the increases except for the last one (2% 2007). Staff also proposes that the Finance Director report to the Council each September 30 prior to the January 1 proposed increase with a report about the need to implement the 2% increase. He also addressed the sewer rates and indicated that a 10-year projection would be presented this evening for the sewer funds. He indicated that the Finance and Audit Committee believe that the sewer rates remain at the current level. He

indicated that the City's consultant, John Farnkopf, was present to address the Council.

John Farnkopf addressed the water funds, revenue requirements, reserves, and rates, and presented a bill comparison/customer profile. He addressed the reserve fund policy for the Operations, Capital Projects, Rate Stabilization and Impact funds. He also addressed projected Water Fund Revenue projections, and the projected deficit. He said that it is being recommended that there be a 2% annual water rate increase for the first five years, based on projections on the operating and capital expenses. He recommended that the City monitor funds and make adjustments accordingly. He addressed the effect of a 2% increase on current water rates and provided a sense of what the structure would be like for its water rate paying customers. He compared Morgan Hill's water rates to that of Gilroy's rates. He said that without the modest rate increase or debt issuance, reserves would drop below the targeted balance. In order to avoid this, it is being recommended that there be 2% water rate increase per year for the next five years. With these rate increases, the City would be able to maintain the Operating, Capital and Rate Stabilization reserves at adequate levels. He indicated that the impact reserves that are funded from connection fees will drop very low in the near term, even with the recent increases in connection fees. It is not being recommended that the volume of water rate structure be modified.

Mr. Farnkopf addressed the reserve sewer funds and indicated that they are well above the target balances at this time. He said that the revenues collected from connection fees would not be sufficient to pay for capital improvement projects and that either debt would have to be issued or some inter-fund loan from the rate stabilization reserves might have to be used. He stated that no rate increases are being proposed for the sewer fund as the current rate structure is acceptable. The reserves are high and that without rate increases, they should drop down to the target balances. A rate decrease is not being recommended because of the potential liability of the future capital costs. He said that the impact reserve will still need to be supplemented by some amount of debt financing.

Mayor Kennedy opened the floor to public comment.

Mark Grzan expressed concern about the water and sewer rates. He indicated that his water was up to \$200 a month in the summer, even though he hand waters and watches his water use. He stated that it has been five years since the last comprehensive review of the City's water and sewer rates has been undertaken and that it was his belief that a thorough review was conducted. He disagreed that the City should wait another five or ten years before the City looks at those rates. He felt that the 2% average may be misleading as vendors are included in the residential mix and industrial users are excluded completely. He did not see where the City and the School District fall within a water use category. He did not see a rate comparison with that of the City of Gilroy. He felt that a review of City rates should include a comparative analysis of the City's structures and a comparison with other agencies. He felt that the study failed to address water rates. He said that he found the study to be confusing and somewhat repetitive. He said that water operations appears to have increased more than water purchases and that this is not explained in the report. He did not believe that increases in water costs explain the increase in expenses and that all users were not listed. He inquired as to the rate of consumption for the years between 1997 and 2000. He inquired whether the City was growing and whether the City

was using more water. He felt that the square footage of homes and lot sizes come into play when you consider water rates. He noted that water conservation was not mentioned and that he did not see a water conservation policy in place for projects that are currently being built. He noted that a consultant prepared the study. He stated that he would appreciate if the City could recruit and retain its own staff to perform the study and have information readily available when needed, required and requested by the public. It is his hope that when the Council talks about water rates that it talks about efficient and effective use of the delivery system. He would like to see a cost per cubic foot delivered and how this compares with other agencies so that the community can see how efficient the City is in the delivery of services.

No other comments were offered.

Council Member Sellers noted that this is the fourth hearing in which the Council has reviewed water and sewer rates. He did not believe that the lack of comments at this time is due to the lack of interest as much as the fact that the Council has reviewed the rates.

Mr. Dilles indicated that the City and School District are considered non residential users, noting that they are entities who pay water bills. Regarding the increases in expenditures, it was his belief that Mr. Grzan was referring to an increase from last fiscal year to this fiscal year. He said that Mr. Grzan was correct when he indicates that the cost, other than water purchase, increased more than the cost of water purchase, citing the number of reasons (staff vacancies occurred last year that are not there currently in this fiscal year, a larger number of meters were purchased this year, a number of operating expenses increased, including increasing the amount of cost allocation). It was determined that the City could and should recover higher level costs from other funds, including the water funds. He stated that this is one of the components of the increase in costs. He indicated that the report did not assume that the City would be spending the full budget this year. In looking ahead, the consultants factored in a 3% annual inflationary rate assumption, including the purchase of water and all of the operating expenses. He said that consumption plays a role and that the more water that is used, the higher tiered level one falls under. A rate user would be paying a higher cost if they are a large water user, incrementally, versus that of a low water user. He said that the City has statistics that show the typical home is using more water on average than in 1997. The rates are higher only if an individual uses more water. Therefore, the bills are based upon water usage and not upon a lot size, per se. In terms of using a consultant, he said that staff could have taken a stab on preparing the study in house. However, it was his belief that there were some areas, particularly controversial areas such as proposed rate increases where he felt that it would be useful to hire an independent consultant in order to receive an expert and objective report. In terms of water conservation not being dealt with, it was his belief that the rate structure deals with conservation. The City encourages lower water usage by charging higher amounts for incremental use.

Mayor Kennedy recollected that in the previous report there was an alternative in which a one time rate was being proposed versus a 2% rate increase over five years. He inquired as to the one time percentage rate previously proposed?

Mr. Dilles responded that the one time rate increase being considered was 8% and that this rate would get the City to the same place over five years and keep the City above the target reserve

levels and met revenue requirements. He stated that staff was not necessarily proposing the 8% rate increase but asked the consultant to come up with a range of options for Council discussion and to determine what would be the best rate alternative.

Mayor Kennedy felt that the fact that the rate structure increases the more one uses does in fact encourage conservation. The more water you use, the higher the rate that is paid. This aspect is built into the rate structure.

Action: *On a motion by Council Member Sellers and seconded by Council Member Tate, the City Council unanimously (5-0) **Directed** staff to return on February 5, 2003, with a Public Hearing for Consideration of Adjustments to Water User Rates.*

Council Member Tate said that the City publishes tips on conservation periodically in City Visions. He felt that it would be a good to publicize water conservation as the public reads about the rate increases.

10. CONSIDER REQUEST FROM MORGAN HILL COMMUNITY HEALTH FOUNDATION (MHCHF) FOR PARTIAL DISBURSEMENT OF MATCHING FUNDS

City Manager Tewes indicated that two years ago, the City Council appropriated \$500,000 to support the work of the Morgan Hill Community Health Foundation (Foundation). Initially, the City Council allocated \$250,000 toward its initial operations and stated that subsequently, the balance would be made available on a matching fund basis. He noted that the Foundation has been to the City Council on several occasions and that on one occasion, they asked for the opportunity to have \$80,000 without the benefit of a match to be used directly for physician recruitment. He indicated that there have been some matching funds and that \$120,000 remains unappropriated. It was his belief that there would be a supplemental request from the Foundation. Should the Council approve the request in matching funds of \$50,000, there would be a \$70,000 fund balance.

Mayor Kennedy opened the floor to public comment.

Bill Brown, President of the Foundation informed the Council that the Foundation has been able to raise \$50,000. He requested that Council acknowledge the funds and match these funds with \$50,000.

John Ray, Executive Director for the Foundation, stated that he was very pleased with the generosity of the Foundation Board members, particularly Mr. and Mrs. Brown for what they have done for the community in terms of the donation of their time and efforts. The donation of significant funds is to be commended.

No further comments were offered.

Council Member Sellers felt that this was a first good step in terms of the independent fundraising that was the goal of the Foundation; one shared by the Council. He said that it was

appropriate for the Foundation to take the major step to come before the Council for this request. He noted that the way the procedures were established, the Foundation was obligated to come to the Council every time they raised funds. He felt that it would be expeditious and a lot more efficient if the Council were to allow the City Manager to allocate the funds that the Council has already determined should be allocated. He recommended that the Council allow the City Manager to disburse funds that have already been set aside for this purpose. He was pleased to see that the Foundation was making some progress.

Mayor Pro Tempore Chang said that it was wonderful that the Foundation was able to raise this amount of money in such a short period of time. She applauded the work of the Foundation. She indicated that Mayor Kennedy is the honorary chair for an upcoming fundraising event to be held sometime in May. The Foundation will be using the Community and Cultural Center and the outside amphitheater to host the event. She indicated that St. Louise Regional Hospital has agreed to sponsor a health fair. It is also hoped that doctors can put together seminars that can be attended by the public. It was her hope that all Council members will be part of a fundraising committee.

Action: *On a motion by Council Member Sellers and seconded by Council Member Tate, the City Council unanimously (5-0): 1) **Appropriated** \$50,000 in matching funds; and 2) **Authorized** the City Manager to disburse funds on a matching basis, up to \$70,000.*

Council Member Carr requested that the Foundation return to the Council and let it and the community know how it is doing when it has the opportunity to do so.

Mr. Brown said that the Foundation is continuing to meet, study and go over healthcare. He indicated that the Foundation received a request from the City Manager to comment on the goals that the Council has set for the medical and healthcare in the City. He said that the Foundation could not do this in the few days that elapsed. He stated that the Foundation would return to the Council with this type of a presentation. It was the Foundation's hope to be able to tap into the City's kindness and generosity. He would like to have another \$70,000 brought in immediately so that the Foundation can receive the balance of the funds earmarked for medical services. Anyone interested in donating funds should make the check payable to the Morgan Hill Community Health Foundation. He stated that the Foundation will acknowledge the receipt of these donations and would appreciate any funds that can be donated. He thanked the members of the Foundation board, noting that all members have contributed cash to the Foundation, including the members of the City Council who sit on the Board. He noted that the Executive Director has also contributed to the funds. The Foundation will be returning to the Council with further reports as it goes along. He indicated that the Foundation is close to signing on a new doctor to work out of the medical office building. He stated that St. Louise Regional Hospital has retained the services of a real estate broker to discuss the lease and move this forward. The Foundation believes that this would be a positive impact on filling the medical office building and making further use of the facility. He said that there are discussions taking place with other doctors and it is hoped that a consensus and agreement can be made.

Redevelopment Agency Action

11. SCHEMATIC DESIGN OF AQUATICS COMPLEX AND FINANCIAL ANALYSIS REPORT

Senior Project Manager Dumas presented the staff report. He indicated that the project architect, ELS, was in attendance and would be presenting the aquatics design concept to the Agency Board. It is staff's desire to attain Agency Board approval of the schematic design with some conditions. Staff is also requesting that the Agency Board allow staff to proceed with the design development and the construction phase of the project.

David Petta presented the work of the aquatics complex steering committee that includes the site plan and the schematic design. He indicated that the concession stands would serve the needs of the three proposed groups: competitors, recreational, and the users of the sports fields. He provided cost estimates relating to the pools, site work, and buildings for a project total of approximately \$8.5 million. The cost includes the Leadership in Environmental and Energy Efficient Design (LEED), right of way improvements along Condit Road, wind and sun protection that was not a part of the original phase I, estimating contingency, change order contingency and escalation contingency fees. He identified the following bid alternatives that could be included: the addition of a fifth and sixth lap lane to the pool at a cost of \$90,000; and the addition of a second slide and a splash down pool at an estimated cost of \$80,000. He identified the aquatics complex schedule. Should the project receive approval, staff would start with a two part construction document effort. He said that this is a tight and well thought out schedule that is contingent upon Agency Board approval this evening. He indicated that the Agency Board will have two more chances to approve the pool package once the bids are received. The building and site work will return to the Agency Board for approval at the end of June or mid-July.

Gino Young, ELS Architects, addressed the LEED matrix and applied it to the City's aquatic project to determine what kind of points could be achieved in energy efficiency and sustainability. Also, studied were the costs relating to LEED points so that they could be evaluated by the Agency Board. He indicated that in order to attain LEED gold, a project needs to attain at least 39 points in identified measures. He said that the project is tracking for LEED silver that would require attaining 34 points. This is being achieved by the use of various elements within each of the categories. He addressed the design of the building for the project. He indicated that the cost to achieve LEED certification is \$408,000 and that is included in the cost estimate for the project.

Agency Member Tate noted that the cost for implementing the LEED elements but does not include attaining certification.

Mr. Dumas stated that staff reviewed the design concept with the aquatics complex steering committee, indicating that the steering committee recommends the addition of conditions of approval: 1) enlarge the recreation pool to accommodate two slides and be able to incorporate a stair towers to accommodate a second slide at a future date; 2) enlarge concession areas or design

it so that a grill with fryers can be accommodated in order to have the ability to serve more hot food; 3) bid alternate to accommodate a six lane pool versus a four lane pool; 4) increase the area between the wind screen and the recreation pools by relocating the team lawn and the wind screen to provide more space around the recreational pools; and 5) redesign the west elevation of the building to make it more interesting, and to be able to accommodate a facility sign as well as some public art such as a mural.

Vice-chairwoman Chang inquired as to the cost required to accommodate the second slide and allow an option for four lanes? Mr. Petta responded that the cost to enlarge the slide pool and not provide the slide would add an additional \$20,000 to the project cost.

Mr. Dumas recommended that the proposed enlargement of the slide pool would proceed as an add on alternative during the bid stage. This would allow the Redevelopment Agency to have both prices when the pool package goes out to bid. The Agency could make a decision on a direction at that time. He stated that the project has approximately \$1 million in contingencies plus \$300,000 in escalation.

Agency Member Sellers stated that his questions relate to the slide and the instructional pool. He said that he could make a direct connection between adding two instructional pool lanes and increased income. However, this is a harder thing to do with the slides. He stated that he had the opportunity to spend time at a pool very similar, in terms of the overall concepts, in Colorado last summer. He inquired if there were long term benefits to including the second slide at this time as opposed to waiting?

Mr. Dumas responded that the overall feeling is that as the project opens, the second slide will benefit the project over the long term by not creating long lines. A second slide would help funnel more people through and would allow more play time for individuals.

Agency Member Sellers inquired if there was a way to move the wind screen as opposed to moving everything else. He inquired how durable the wind screen would be.

Mr. Petta stated that once the wind screen is installed, it would be permanent. He said that the wind screen could be shifted to find a happy median so that there is some lawn on both sides of the wind screen. He stated that the wind screen would be as durable as he can possibly make it.

Mr. Dumas said that staff has not determined the appropriate art work or the artist that would be used to design the art work. He said that the City would more than likely be looking for direction from a local artist or Gavilan College.

Agency Member Sellers said that the art work/design may be a project that the community could undertake.

Chairman Kennedy indicated that he and Agency Member Carr have some thoughts regarding art and that they would provide preliminary comments this evening

Agency Member Tate encouraged installation of the second slide and the additional two lanes as

they are required; however, he expressed concern with what the business plan would show. He was supportive of adding features that would add revenue. He said that he was not sure about the art recommendation because it does not add revenue but that it would make the facility more attractive. He said that he was supportive of spending capital dollars up front if it would achieve better returns.

Agency Member Carr stated that the committee has discussed investment dollars upfront that would help minimize the City's cost down the back stretch. The committee has talked about investment dollars and the need for the additional two lanes and the additional slide as well as the Parks and Recreation Commission's recommendation of enlarging the concession area for better utilization. He said that the committee looked at the elevations of the mechanical buildings that face Condit Road, Highway 101 and entryway into the facility. It was felt that elevations were bland. Chairman Kennedy is recommending mural or art work that would create an interest for individuals driving by. This would also create signage for the facility. He said that the City could talk to the high school or Gavilan College and/or local artist to assist with the art work. He stated that the committee would like to spend more time looking at this concept and see how it can be implemented. The committee also spent a lot of time discussing the windscreen as it is an essential based upon the wind patterns of the area. Protecting the competitive pool is important. It was felt that the windscreen could be incorporated in such a way that it would allow access between pool areas. He stated that in December, the Agency combined phases of the project, noting that a year ago, this was an eight phased project. It was realized that doing the project in the different phased steps did not make as much sense as doing some of the them together, especially for the cost recovery portions of the project. Therefore, several phases have been moved up in the schedule, noting that the project has not changed, only the phasing has changed to the project. He indicated that the committee would be meeting early next week to talk about cost recovery and financing part of this project so that the committee can come back to the Agency in early February. They will bring some thoughts on how the City can achieve better cost recovery and what will be the needed aspects of the project in order to get there. He stated that the project is on a tight timeline and that staff is working hard to meet the timeline set by the subcommittee. He said that the committee and staff are trying to keep the project on the aggressive schedule.

Chairman Kennedy felt that a goal of the aquatics complex is to design it where it can achieve the highest cost recovery possible so that the City's general fund is not jeopardized. He said that the committee will be focusing very carefully on the operating cost. He said that there are a variety of different potential users that he has spoken to that he wants to make sure are part of the cost recovery. He said that the guests of hotels and motels can use the center through agreements and provide an annual fee to use the facility. He said that scuba diving clubs can use the facility for training and that Gavilan College could use the facility for rehabilitative swimming. He felt that there were a wide variety of options that would help the cost recovery. The additions being discussed are bid alternates. He said that it is the committee's hope that in bidding at the proper time the City may be able to get good prices and be able to incorporate a lot of the additional cost generating features without increasing the overall capital cost of the project. However, this information will not be known until the bids come in. With respect to the public art, he envisioned raising the west wall facing Condit Road to lend itself to a mural. The City could consider using some of the local high school artists, working with the architect to make it an art

project. He recommended that the City look at a variety of options to make the west facing wall more attractive, using bright colors of swimmers/divers to invite people to come into the aquatics center.

He said that the water polo and the competitive swimmers would like to see the shallow end of the 50-meter pool at a two meter/seven feet depth. He noted that this design would not allow this depth. In speaking with the architects, it is being recommended that the decision on this particular issue be deferred until the City can investigate the additional cost and what restrictions on the pool this would create. He indicated that the committee may return with a request to make the shallow end of the pool a depth of seven feet. He has been advised that the biggest cost is based on the square footage and that adding depth does not increase the capital cost significantly. As currently designed, the 50-meter pool has a 4.6 foot depth at the shallow end and that the L-shape slopes it up to 3.6 feet in order to meet ADA requirements. If there is a way to allow the depth at seven feet, it would allow two water polo games to occur simultaneously for competition, and would also allow the high quality swimming competitions

Executive Director Tewes said that this would be one of the issues to be evaluated as part of the business plan, as it has certain capital costs and an implication for the desirability for non water polo players to use the facility. He said that the 50-meter competition pool is by far the most expensive element to maintain. He said that all these issues would be balanced when the committee returns to the Council on February 5.

Vice-chairwoman Chang complimented the architect on the design of the community playhouse. She indicated that she had the ability to tour the interior of the building and found it to be incredible.

Chairman Kennedy opened the floor to public comment.

John Rick addressed the need for a minimum two meter depth competition pool. He said that in order to bring in good revenues, competitions will need to be held for water polo and swim tournaments up to the national level.

Geno Acevedo commended everyone for the progress being made on the aquatics center. He stated that the 50-meter pool was incorporated for competitive purposes and to have a recreational component to help offset the costs for the competitive aspect of the project. He said that it would be important to have three games of water polo taking place to be able to host up to a national and/or larger tournaments. He stated that it is the larger events that would bring in the people who would stay the night, eat at the local restaurants, and spend money. He stated his support of relocating the windscreen in order to open up the deck to make the recreation side as friendly as possible. He said that the team lawn is a set aside area to allow room for temporary bleachers and not crowd onto the pool decks. He recommended that the entire site be shifted south to accommodate the windscreen. He stated that he was not opposed to public art. However, from the competitive side, he would like to have individuals be able to view what is taking place. He said that it was suggested, in the Parks and Recreation Commission, that the walls be designed with holes or open slats so that individuals can look in as they drive past the facility.

No other comments were offered.

Chairman Kennedy stated that he would support increasing the shallow end to seven feet. However, he felt that additional research is needed because he did not want to limit the recreational use of the 50-meter pool. He stated that it would not be desirable should increasing the depth result in a net loss of pool use. He felt that this issue should be looked into carefully before making a decision.

Vice-chairman Chang said that there may be certain swimmers who may not want to start at this depth.

Agency Member Sellers addressed LEED certification. He said that it was apparent to him that the items where the City did not have points would be hard to attain. He stated that he was excited that the City would be able to achieve LEED silver and that whether or not the City is certified is a different issue. He said that to try to push the design to achieve the next LEED level is not necessarily the best way to proceed. He was pleased to hear about the public art but that he was anxious about it for reasons discussed before. He said that this may result in a process that creates an Art Commission. He recommended that the Agency Board keep as broad a perspective as possible and that art include alternate materials such as tile. He wanted to make sure that the City does not limit itself by calling art a mural as there may be other forms or art (e.g., three dimensional art). He recommended that this process be kept open, as creative as possible, and attract private funding. He noted that the City could tap the resources of the Community Foundation and other resources to provide art for the facility. He appreciated all alternatives being considered in terms of cost recovering. He recommended that the City be conservative and that it does not overstate the features. He said that he would support approval this evening as he liked the design and the direction the City was heading. He is hopeful that the project would be coming at or below bid and would be able to add the lanes and the second slide as they are both critical elements.

Agency Member Tate appreciated the committee's emphasis on revenue generation activities. He stated that he would be focusing on the net operating and maintenance costs. He stated that he would not hold up the progress that the Agency wants to make with this fast moving development but that it is critical that the Agency make the project pencil in.

Action: *On a motion by Agency Member Sellers and seconded by Vice-chair Chang, the Redevelopment Agency Board unanimously (5-0) **Conditionally Approved** the Schematic Design, Pending Agency and Staff Review, with Recommended Revisions; and 2) **Authorized** Staff to Proceed with the Design Development/Construction Document Phase of the Project.*

City Council Action

OTHER BUSINESS:

11. CITY SUPPORT FOR THE CREATION OF 2-1-1 INFORMATION AND REFERRAL PHONE NUMBER

Assistant to the City Manager Dile, presented the staff report, indicating that Nona Tobin, a loaned executive to United Way, was present to address the creation of the 211 Information and Referral Phone System.

Nona Tobin distributed a package of information that had been previously distributed at a community forum held last week for elected officials, business people and non profits. She indicated that 211 is a phone number that is designed to allow people to have access to any of the health and human services in their community. She highlighted how 211 is moving across the nation, noting that is sponsored by United Way America and the Association of Information Referral System's project. She indicated that the FCC authorized the exclusive use of the 211 for this purpose. However the FCC did not allocate funding for this program. Therefore, every state and local community has to come up with their own way for creating the service within its community. The FCC stated that it would review this number after five years (2005) to see it has been substantially implemented. She indicated that 211 is accessible to 18% of the population and is being used in 19 states and 55 centers. In California, it is going through the Public Utilities Commission (PUC) and that it is on their January 30, 2003 agenda. She is hoping that the PUC will authorize 211. She requested that letters be sent to the PUC requesting that they take action on 211. Once approved, every geographic area of no smaller than a county or group of counties, would be able to submit an application to one service provider per area.

Ms. Tobin informed the Council that a local steering committee has been meeting for over a year, bringing together all interested stake holders and different non profits that provide information and referral services. The PUC would like to see a 9 month process before putting the structure in place. She indicated that this county does not have the benefit of having a 24-hour call center that has a seven digit number that could be switched to a three digit number. Therefore, United Way is creating a collaborative to create this function in the County. She informed the Council that 211 would be used by individuals with problems, in need of services or wanting to volunteer. Having a 211 number would create a central location where individuals can call with a multitude of problems who would be assisted by trained operators who would refer the individuals to appropriate human services agency. She indicated that people in personal crises can use 211 who are not in need of 911 emergency services. She said that it is hoped to engage businesses, non profits and the public sector to help create and fund this program. It is a goal to have the project implemented in 2005, once PUC approvals are attained with full call of volumes by 2008. She requested that the City consider having someone participate with the steering committee in order to work together to come up with the best local solution that takes advantage of whatever resources exist. She further requested that the Council adopt a support resolution that states that the City is interested in seeing that the County has this service available. She felt that the collaborative process is the best way to approach 211. Also, that the City designate someone that can be on their list serve and be the connection at the City who can provide information regarding the services that the City currently provides, the best way to interface with the process, and to stay informed throughout the process. She indicated that by adopting the resolution, it does not commit the City to any costs.

Council Member Sellers stated that he was supportive of the effort. He understood the cost savings from the 911 calls that should not be 911 costs. He felt that the individuals who need the help the most would be the least likely to go through all the steps to attain the needed services. He inquired whether there were measurable increases in the number of calls who would access services through 211 as it would be an easy number to remember and access?

Ms. Nollin said that when you have an information and referral agency that has been in operation and they take on 211, they get a 40% increase in calls.

Council Member Sellers felt that this was a great service and that he would support it.

Actions: *On a motion by Mayor Pro Tempore Chang and seconded by Council Member Sellers, the City Council unanimously (5-0) **Adopted** the Resolution of Support.*

ADJOURN TO CLOSED SESSION

Chairperson/Mayor Kennedy adjourned the meeting to closed session at 9:40 p.m.

RECONVENE

Chairperson/Mayor Kennedy reconvened the meeting at 10:08 p.m.

CLOSED SESSION ANNOUNCEMENT

Agency Counsel/City Attorney Leichter announced that no reportable action was taken on the above listed closed session items.

FUTURE COUNCIL-INITIATED AGENDA ITEMS

No items were noted.

ADJOURNMENT

There being no further business, Chairperson/Mayor Kennedy adjourned the meeting at 10:09 p.m.

MINUTES RECORDED AND PREPARED BY

IRMA TORREZ, Agency Secretary/City Clerk



CITY COUNCIL STAFF REPORT

MEETING DATE: *February 5, 2003*

PUBLIC HEARING REGARDING WATER RATES

RECOMMENDED ACTIONS:

- 1) Open and close the public hearing
- 2) Discuss proposed water rates
- 2) Adopt Resolution implementing adjustments to water user rates

EXECUTIVE SUMMARY: At the November 13 workshop and at the January 22

Public Meeting, the City's sewer and water rate consultant, Hilton Farnkopf & Hobson, presented their study of the City's sewer and water revenue requirements, including proposed water rate adjustments. The rates were last adjusted in 1997. The consultant has not recommended any changes to the City's basic water rate structure and no such changes are proposed at this time. At the workshop, staff was directed to analyze the target zone for each of the water reserve funds and then determine their cumulative effects, and also to schedule a public hearing for consideration of water rate adjustments.

The consultant provided three options for water rates. The Finance and Audit Committee reviewed the ten year projections of water financial activity and recommended the option that increases water rates by 2% for each of the next five years. The attached Exhibit A includes 2% increases in April 2003 and in January of 2004, 2005, 2006, and 2007. In addition, in response to Council feedback, staff proposes that the Finance Director report to the City Council by each September 30 prior to each January increase regarding the need for the January increase, and, if warranted, the City Council would have the opportunity to eliminate that increase. The attached ten year projection of financial activity for the water funds reflects the following three components of proposed reserve levels for the water funds, and almost reaches the combined target reserve level by 2006/07:

(1) operating reserve = 25% of operating expenses (1.5 times the annual maximum fluctuation in the water fund balances) (**highest priority**);

(2) capital reserve = greater of one year's average 5 year CIP costs or minimum amount necessary to keep the Capital Reserve above \$0 (**second priority**); and

(3) rate stabilization reserve = 20% of annual operating revenue for revenue shortfalls (**lowest priority**).

Staff recommends inclusion of all 3 reserves. However, if the City Council chooses to not finance the rate stabilization reserve, the same increases should be implemented except that the 2% increase in January 2007 should be eliminated, since this would keep reserves above the two highest priority target reserve levels. This action would result in potential rate adjustments if a revenue shortfall were to occur.

If rates adjustments are approved this evening, there would be sufficient time to notify the public and implement rate adjustments as of April 1.

FISCAL IMPACT: To fully fund water operations and recommended reserves, water rates should be adjusted as reflected in Exhibit A.

Agenda Item # 13

Prepared By:

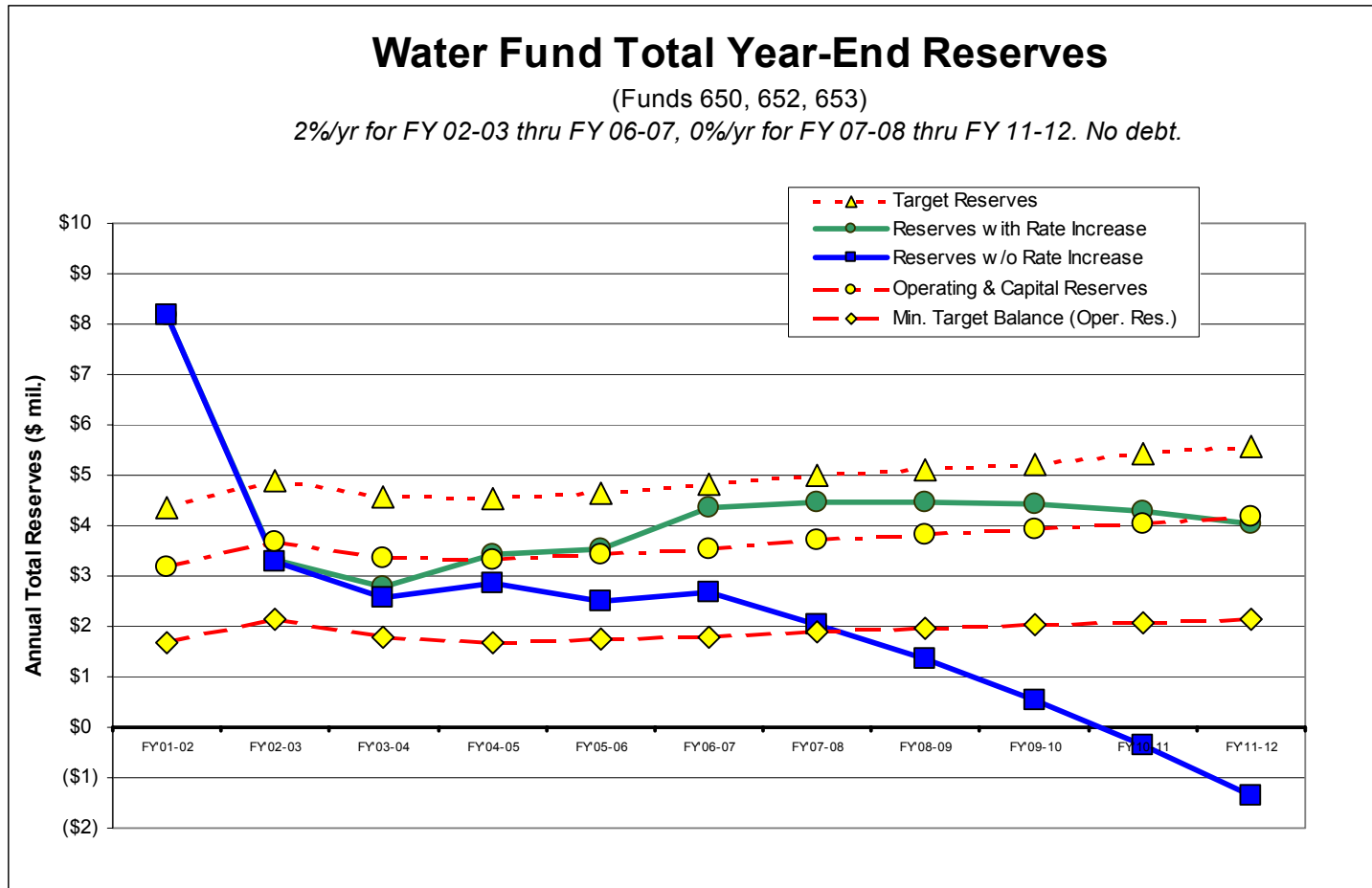
Finance Director

Submitted By:

City Manager

Water Fund - Reserve Balances

2% Annual Increases Over Next Five Years



RESOLUTION NO. 5638

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL REVISING MONTHLY WATER SYSTEM FEES

WHEREAS, Chapter 13.16.030 of the Municipal Code of the City of Morgan Hill (“Municipal Code”) establishes Water Commodity and Service Rates; and;

WHEREAS, Section 13.04.090 of the Municipal Code provides for revision of established Water Commodity and Service Rates; and;

WHEREAS, the City Council of the City of Morgan Hill (“City Council”) has received and duly considered the report entitled “Water and Sewer Fund Revenue Requirements Study,” dated October 17, 2002, authored by Hilton Farnkopf & Hobson, LLC (“Hilton”); and;

WHEREAS, as the Hilton report demonstrates, the Water Commodity and Service Rates established by this resolution do not exceed the reasonable cost of providing water system services within the City of Morgan Hill (“City”); and;

WHEREAS, the fees established by the Hilton report rationally relate to the reasonable cost of providing water system services within the City; and;

WHEREAS, a public hearing on adoption of this resolution and the fees outlined in Exhibit A attached hereto was noticed pursuant to and in compliance with Government Code section 6062(a), and set as part of a regular City Council meeting held on February 5, 2003, in the Council Chambers located at City Hall, 17555 Peak Avenue; and;

WHEREAS, the Hilton report, as well as all material supplementary thereto, and all background data referenced in the report, was available for public inspection and review at the City Clerk’s Office and Finance Department of the City of Morgan Hill; and;

WHEREAS, the City Council has received and duly considered all written and verbal comments provided to it by staff and the public, which comments are hereby incorporated into the record on this matter; and;

WHEREAS, the City Council deems it necessary that Water Commodity and Service Rates be adjusted to ensure that users pay for water system costs in order to promote the public health, safety, and welfare.

NOW, THEREFORE, the City Council, based upon all documents, statements and facts known to the City, does hereby resolve:

SECTION 1. Findings: The City Council hereby finds as follows:

- A. All provisions set forth above are true and correct, and are hereby incorporated herein as findings of this City Council by reference.
- B. The purpose of the fees set forth herein is to finance water system costs.
- C. There is a need for water system services to protect the public's health, safety and welfare.
- D. The facts and evidence presented to the City Council establish that the cost estimates set forth are reasonable cost estimates, and the fees expected to be generated will not exceed those costs.

SECTION 2. Adoption of Fees. Therefore, Water Commodity and Service Rates for the City of Morgan Hill are established as stated in Exhibit A, which is attached hereto and incorporated by reference.

SECTION 3. Implementation Dates. The City Council hereby orders that all increases in Water Commodity and Service Rates be effective for each monthly billing cycle beginning on or after April 1, 2003, January 1, 2004, January 1, 2005, January 1, 2006, and January 1, 2007, as described in Exhibit A, subject to the guidelines established below.

The Finance Director shall report to the City Council by each September 30th prior to January 1 of 2004, 2005, 2006, and 2007, regarding the need for the increase to be effective the following January 1. The Water Commodity and Service Rates, described in Exhibit A and effective on each January 1 implementation date, shall not be implemented if the City Council, based upon the Finance Director's report, eliminates the January 1 increase. The Finance Director's annual report shall analyze whether the January 1 increase is necessary to provide for anticipated costs through June 30, 2007, and to maintain reserves equal to the following:

- a. Operating Reserve amounting to 25% of annual operating expenses
- b. Capital Reserve amounting to the greater of one year's average annual five-year Capital Improvement Program costs or the minimum amount necessary to keep the Capital Reserve above \$0
- c. Rate Stabilization Reserve amounting to 20% of annual operating revenue

SECTION 4. Challenges to Resolution. Any judicial action or proceeding to attack, review, set aside or annul this resolution or any provision thereof shall be brought within one hundred and twenty (120) days of the adoption by the City Council.

SECTION 5. Exemption from CEQA. Pursuant to Title 14, California Code of regulations, Sections 15061 and 15273(4), the City Council finds that this resolution is exempt from the California Environmental Quality Act.

SECTION 6. Severability. If any portion of this Resolution is declared invalid by a court of competent jurisdiction then it is the intent of the City Council that all other provisions of the Resolution shall be severed and remain in full force and effect.

PASSED AND ADOPTED by the City Council of Morgan Hill at a Regular Meeting held on the 5th Day of February, 2003, by the following vote.

AYES: COUNCIL MEMBERS:
NOES: COUNCIL MEMBERS:
ABSTAIN: COUNCIL MEMBERS:
ABSENT: COUNCIL MEMBERS:

🍷 CERTIFICATION 🍷

I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA, do hereby certify that the foregoing is a true and correct copy of Resolution No. 5638, adopted by the City Council at the Regular Meeting on February 5, 2003.

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.

DATE: _____

IRMA TORREZ, City Clerk

wtrrts

CITY OF MORGAN HILL
WATER COMMODITY AND SERVICE RATES

EXHIBIT A (P. 1 of 2)

	CURRENT RATES	CURRENT RATES	APRIL 2003	APRIL 2003	JANUARY 2004	JANUARY 2004	JANUARY 2005	JANUARY 2005	JANUARY 2006	JANUARY 2006	JANUARY 2007	JANUARY 2007
	<i>Inside City</i>	<i>Outside City</i>	<i>Inside City</i>	<i>Outside City</i>	<i>Inside City</i>	<i>Outside City</i>	<i>Inside City</i>	<i>Outside City</i>	<i>Inside City</i>	<i>Outside City</i>	<i>Inside City</i>	<i>Outside City</i>
MONTHLY SERVICE CHARGES:												
Meter Size:												
5/8"	4.90	7.60	5.00	7.75	5.10	7.91	5.20	8.07	5.30	8.23	5.41	8.39
3/4"	4.90	7.60	5.00	7.75	5.10	7.91	5.20	8.07	5.30	8.23	5.41	8.39
1"	4.90	7.60	5.00	7.75	5.10	7.91	5.20	8.07	5.30	8.23	5.41	8.39
1 & 1/2"	8.15	12.65	8.31	12.90	8.48	13.16	8.65	13.42	8.82	13.69	9.00	13.97
2"	13.10	20.30	13.36	20.71	13.63	21.12	13.90	21.54	14.18	21.97	14.46	22.41
3"	26.15	40.55	26.67	41.36	27.21	42.19	27.75	43.03	28.31	43.89	28.87	44.77
4"	42.35	65.65	43.20	66.96	44.06	68.30	44.94	69.67	45.84	71.06	46.76	72.48
6"	65.05	101.00	66.35	103.02	67.68	105.08	69.03	107.18	70.41	109.33	71.82	111.51
8"	97.75	151.50	99.71	154.53	101.70	157.62	103.73	160.77	105.81	163.99	107.92	167.27
10"	130.35	202.05	132.96	206.09	135.62	210.21	138.33	214.42	141.10	218.71	143.92	223.08
Low income discounts:	(2.95)	(2.95)	(3.01)	(3.01)	(3.07)	(3.07)	(3.13)	(3.13)	(3.19)	(3.19)	(3.26)	(3.26)

CITY OF MORGAN HILL
WATER COMMODITY AND SERVICE RATES

EXHIBIT A (P. 2 of 2)

	CURRENT RATES <i>Inside City</i>	CURRENT RATES <i>Outside City</i>	APRIL 2003 <i>Inside City</i>	APRIL 2003 <i>Outside City</i>	JANUARY 2004 <i>Inside City</i>	JANUARY 2004 <i>Outside City</i>	JANUARY 2005 <i>Inside City</i>	JANUARY 2005 <i>Outside City</i>	JANUARY 2006 <i>Inside City</i>	JANUARY 2006 <i>Outside City</i>	JANUARY 2007 <i>Inside City</i>	JANUARY 2007 <i>Outside City</i>
COMMODITY RATE:												
<u>Single Family</u>												
<i>Tier Rates</i>												
<i>(Per Dwelling</i>												
<i>Unit per</i>												
<i>hundred</i>												
<i>cubic feet)</i>												
1-10 HCF	0.95	1.47	0.97	1.50	0.99	1.53	1.01	1.56	1.03	1.59	1.05	1.62
11-30 HCF	1.90	2.95	1.94	3.01	1.98	3.07	2.02	3.13	2.06	3.19	2.10	3.26
30+ HCF	2.85	4.42	2.91	4.51	2.97	4.60	3.02	4.69	3.08	4.78	3.15	4.88
<u>Multi-Family</u>												
<i>Tier Rates</i>												
<i>(Per Dwelling</i>												
<i>Unit per</i>												
<i>hundred</i>												
<i>cubic feet)</i>												
1-8 HCF	0.95	1.47	0.97	1.50	0.99	1.53	1.01	1.56	1.03	1.59	1.05	1.62
9-16 HCF	1.90	2.95	1.94	3.01	1.98	3.07	2.02	3.13	2.06	3.19	2.10	3.26
17+ HCF	2.85	4.42	2.91	4.51	2.97	4.60	3.02	4.69	3.08	4.78	3.15	4.88
<u>Non-Residential</u>												
<i>(Per hundred</i>												
<i>cubic feet)</i>												
All uses	1.55	2.40	1.58	2.45	1.61	2.50	1.64	2.55	1.68	2.60	1.71	2.65



CITY OF MORGAN HILL

WATER AND SEWER FUND REVENUE REQUIREMENTS STUDY

HILTON FARNKOPF & HOBSON, LLC



October 17, 2002

City of Morgan Hill

17555 PEAK AVENUE

MORGAN HILL, CA 95037

WATER AND SEWER FUND REVENUE REQUIREMENTS STUDY

OCTOBER 17, 2002



Hilton Farnkopf & Hobson, LLC

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October 17, 2002

Mr. Jack Dilles, Director
Finance Department
City of Morgan Hill
17555 Peak Avenue
Morgan Hill, CA 95037

Subject: Water and Sewer Fund Revenue Requirements Study

Dear Mr. Dilles:

Hilton Farnkopf and Hobson, LLC is pleased to present the City with this Water and Sewer Fund Revenue Requirements Study.

This report updates our earlier April 2002 report to account for recent changes in the fiscal year 2002-03 budget and projections through fiscal year 2006-07. Potential rate and debt funding options to meet revenue requirements are also briefly summarized.

If you have any questions about this study, please contact me at 925-977-6953, or Greg Clumpner at 530-759-1650.

Very truly yours,

HILTON FARNKOPF & HOBSON, LLC

John W. Farnkopf, P.E.
Senior Vice President

Attachments

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I. EXECUTIVE SUMMARY

Hilton Farnkopf and Hobson, LLC (HF&H) has prepared this report for the City of Morgan Hill (the City) under a subcontract with DMG Maximus, Inc. The following is a brief summary.

WHY WAS THIS STUDY PREPARED?

The City has studied its water and sewer rates within the last few years and is reasonably satisfied with its current water and sewer rate structure. However, the City has been updating its water and sewer master plans and capital improvement programs, and wanted to review the impacts these changes may have on the revenue requirements for these utilities. The primary purpose of this study is to evaluate revenue requirements. Rate and funding options are only present briefly for informational purposes and not to provide recommendations on rate adjustments.

WHAT DID THE STUDY ENTAIL?

Beginning in August of 2001, HF&H evaluated the City's current water and sewer rates, considered the revised costs of planned capital improvements, projected the overall revenue requirements, and calculated the rate increases needed to meet future operating and capital costs. In an April 2002 version of this report, HF&H presented 5-year financial plans for both Water and Sewer Funds. This plan outlined contributions to fund reserves, year-end balances, the funding sources for capital projects, and prepared projections of rate increases. Since that study was completed, the City's budgets have continued to change, necessitating this update. In particular, the City has responded to increasing costs in the water fund by re-examining and reducing its budgeted expenses, including the cost, timing, and need for capital projects.

WHAT ARE THE PROJECTED REVENUE REQUIREMENTS?

Based on the City's estimated actual FY 01-02 and adopted FY 02-03 budgets and input from HF&H, City staff made additional adjustments to the projected water and sewer revenue requirements. HF&H has reviewed and incorporated these projections. Table ES-1 and Figures ES-1 and ES-2 show the resulting projections over the next four years. It should be noted that the "Percent Change" shown for both the Water and Sewer Funds in Table ES-1 represents the change from year to year in the revenue requirements, not rate increases.

This table and these figures illustrate the dramatic increase in Water Fund revenue requirements from FY 00-01 to FY 01-02 due to higher costs of capital projects and to a lesser extent the drop in non-rate revenues. After a return to more normal levels of capital costs in FY 03-04, the projected revenue requirements are characterized by smaller, steadier increases.

The changes in the Sewer Fund projections are more gradual and less dramatic.

Table ES-1

Summary of Water & Sewer Revenue Requirements*City of Morgan Hill*

	FY'00-01	FY'01-02	FY'02-03	Projected Revenue Requirements			
	Est. Actual	Est. Actual	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Fund (650)							
Water Operations	\$2,807,834	\$3,595,764	\$4,194,719	\$4,373,600	\$4,446,400	\$4,562,900	\$4,682,700
Water Purchases	\$871,271	\$1,005,316	\$1,115,847	\$1,217,000	\$1,279,000	\$1,343,000	\$1,411,000
Transfers Out (In)	\$987,950	\$2,079,808	\$3,269,799	\$1,481,800	\$1,032,537	\$1,055,937	\$1,080,037
less Non-Rate Revenue	<u>(\$674,656)</u>	<u>(\$356,495)</u>	<u>(\$401,347)</u>	<u>(\$419,500)</u>	<u>(\$427,700)</u>	<u>(\$436,100)</u>	<u>(\$444,700)</u>
Net Revenue Req'ts.	\$3,992,399	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037
Percent Change		58%	29%	-19%	-5%	3%	3%
Sewer Fund (640)							
Sewer Operations	\$5,082,136	\$5,297,634	\$5,983,857	\$5,968,988	\$6,053,546	\$6,180,346	\$6,310,646
Transfers Out (In)	\$978,706	\$850,543	\$391,377	\$503,100	\$765,200	\$877,700	\$890,600
less Non-Rate Revenue	<u>\$ (412,500)</u>	<u>\$ (417,402)</u>	<u>\$ (422,000)</u>	<u>\$ (434,000)</u>	<u>\$ (446,000)</u>	<u>\$ (459,000)</u>	<u>\$ (473,000)</u>
Net Revenue Req'ts.	\$5,648,342	\$5,730,775	\$5,953,234	\$6,038,088	\$6,372,746	\$6,599,046	\$6,728,246
Percent Change		1%	4%	1%	6%	4%	2%

Source: Water and Sewer Rate Model Tables FP-W1 and FP-S1.

Figure ES-1 - Projected Water Fund Revenue Requirements
 (with Level Rate Increases of 2%/year - for Illustration Purposes)

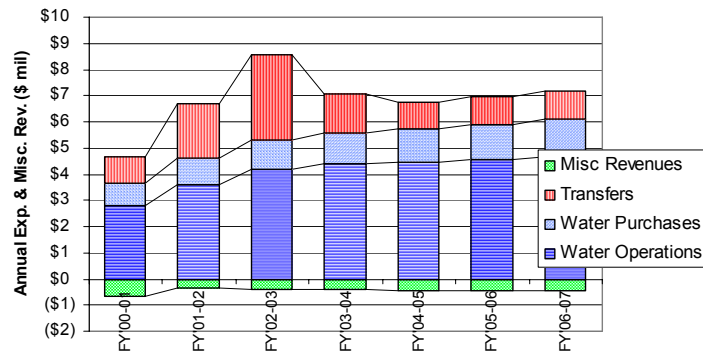
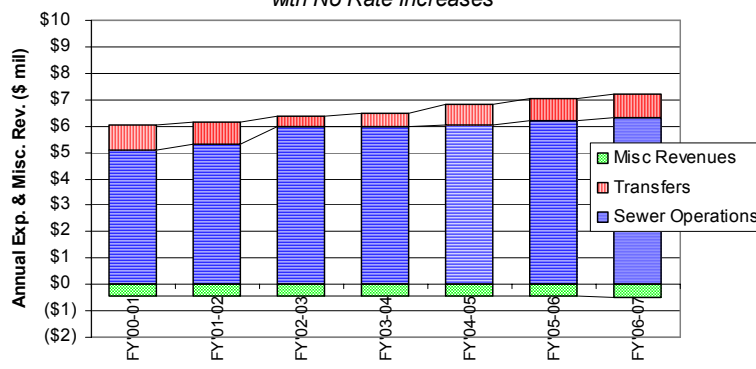


Figure ES-2 - Annual Sewer Fund Revenue Requirements
 with No Rate Increases



WHAT ARE THE RATE AND FUNDING ALTERNATIVES?

To meet revenue requirements in the Water Fund, the City could pursue one of the following options, or some combination of these alternatives:

- **Alternative 1 - Level Water Rate Increases of 2%/Year** – Adopting a water rate increase of 2%/year beginning in FY 02-03 would be sufficient to meet revenue requirements.
- **Alternative 2 - One-Time Rate Increase of 8%** – This one-time rate 8% increase in FY 02-03 could be used to meet the revenue requirements and target reserve fund levels through the end of FY 06-07.
- **Alternative 3 - Additional Debt Only** – If the City chose to not increase rates through FY 06-07, it could still meet the water utility's revenue requirements by issuing an additional \$2 million in revenue bonds, or other debt, in or around FY 04-05 to meet the capital projects requirements and target reserve levels.

It appears the City would not need to increase rates in the Sewer Fund to meet projected revenue requirements, assuming the City issues the \$8 million in revenue bond proceeds in FY 04-05 as currently shown in the 5-year capital improvement program.

WHAT OTHER FINDINGS DOES HF&H MAKE IN THIS REPORT?

Based on our review, the City should consider the following findings along with the results of the revenue requirements:

- **Rate Structures** – The City's current water and sewer rate structures do not warrant any significant revisions.
- **Rate Adjustments** – As a next step, the City should carefully evaluate the projected expenditures in the CIP program and the rate adjustments and/or debt funding needed over the next few years to meet these revenue requirements.
- **Future Review** – The City should annually review the assumptions used in developing the budgets, revenue requirements, and capital expenditures.

II. INTRODUCTION

In the last few years, the City studied its water and sewer rates, including public workshops. As a result, the City already has a rate structure that meets many of the City's ratemaking objectives. Therefore, when the City initially retained HF&H to review the existing rates, our primary objective was to identify further improvements and rate adjustments needed to meet future revenue requirements. The City also requested that we do this within the context of a 5-year financial plan for both the Water and Sewer Funds.

City staff requested that the emphasis in this report be on the projected revenue requirements, while also providing a brief overview of alternatives for adjusting water and sewer rates. City staff have also indicated that the City Council and other stakeholders will review these revenue requirements and determine what additional analysis, if any, is needed prior to considering any rate changes.

The following report provides a brief overview of the proposed 5-year financial plans, and several alternative rate adjustments for informational and illustrative purposes.

STUDY APPROACH

The initial study task was to collect input from City staff, including the current budget, rate structure, and other financial information for both the Water and Sewer Funds. As a part of the initial rate review, we also reviewed the City's water consumption records and sewer customer characteristics, which play a role in determining equitable water and sewer rates.

To address the equity of rates and the appropriateness of the rate structures, we developed rate models for both Water and Sewer Funds, and developed financial plans for each utility. The technical core of these rate models and financial plans addressed how costs are allocated among various customer classes, the contributions needed in the City's reserve funds, and how to meet future revenue requirements. The 5-year planning period addressed was FY 02-03 through FY 06-07.

Some of the basic assumptions used in these rate models included:

- Projected growth in customer accounts: 2.0%/year
- Projected escalation in employee salaries: 3.0%/year
- Projected general inflation rate: 3.0%/year
- Projected interest earnings rate: 4.0%/year

Some of the more specific assumptions include:

- Current SCVWD water rates (i.e., the pump tax) will increase at 3%/year, and the City will also pay for more water due to growth-related increases in total

consumption. However, these 3%/year rate increases are less than half the increases that SCVWD is projecting, and any increases above this 3% will directly increase the City's water revenue requirements.

- The City will be reimbursed \$700,000 in FY 03-04 for well construction costs it incurred on behalf of other entities.
- The FY 02-03 transfer of \$1.3 million from operations to the Water Impact Fund (651) will be repaid to the operations fund before the end of the study period.
- We assumed that debt service on any new revenue bonds is based on a repayment period of 20 years, an interest rate of 6%, and issuance and reserve fund requirements amounting to 10% of the net bond proceeds.
- Any optional rate increases in FY 02-03 would take effect on April 1, 2003 and, therefore, would only generate additional rate revenue in the last quarter of the fiscal year. However, these rate increases would carry over to subsequent years and generate additional rate revenues for the remainder of the study period.

Although projected expenditures reflect the City's most recent budgets, in an effort to reduce total water revenue requirements in FY 02-03 and thereafter City staff and HF&H have made additional adjustments to water operating costs, capital costs, and how transfers and reserve funds are used. Therefore, the Water Fund "current plan" budget for FY 02-03 is different than the adopted FY 02-03 budget.

Projected expenditures after FY 02-03 generally assume costs are inflated at 3 percent per year. The SCVWD currently projects rate increases of approximately 30 percent between FY 02-03 and FY 06-07. However, the City's past experience is that SCVWD increases are not as great as projected. Because of this, the City is assuming only a 3%/year rate increase in SCVWD's pump tax rates during the next four years. Any additional SCVWD increases would directly increase the City's water revenue requirements.

Once the budget data were collected and the budget adjustments accounted for, initial rate model and financial plans were developed. Using these tools, we evaluated the projected operations budgets and the resulting net revenue required from water and sewer. Those net revenue requirements are the result of the following factors:

+ Operating Expenses (from Budgets)
+ Reserve Fund Transfers Out (or In)
+ CIP Funding Needs
- Non-Rate Revenues
<hr/>
Net Revenue Requirements

III. WATER AND SEWER 5-YEAR FINANCIAL PLANS

After reviewing the cost allocations to the customer classes, we concluded that the City need not substantially change its rate structures. We therefore focused our efforts on the revenue requirements, fund balances, and potential rate increases needed, which are reflected in the financial plans. Alternative rate adjustments are discussed in the last section.

This section presents the 5-year financial plans for the Water and Sewer Funds. These plans consist of projected revenue requirements, transfers between reserve funds, and ending-year reserve fund balances. These components are discussed individually below. Supporting tables, including details of the budget projections, are provided in Appendix A for water revenue requirements, and in Appendix B for the sewer.

WATER FINANCIAL PLAN

Revenue Requirements

The projected revenue requirements for the Water Operations Fund (650) are presented in Table FP-W1A and Figure 1A. For illustration purposes, we have assumed that rate increases of 2% per year are implemented in order to meet reserve fund target balances.

Table FP-W1A

Projected Water Fund Revenue Requirements (with Level Rate Increases of 2%/year)

City of Morgan Hill

Water Fund Expenses	FY'01-02	FY'02-03	Water Financial Plan - Projected Revenue Req'ts. (b)			
	Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations						
Employee Services	\$864,807	\$950,991	\$1,036,200	\$1,067,200	\$1,099,200	\$1,132,200
Supplies & Services (Excl. Water Purchases)	1,338,095	1,652,130	1,675,000	1,725,300	1,776,900	1,830,300
Capital Outlay	73,760	64,275	106,200	68,200	70,200	72,200
Debt Service	554,481	551,372	551,300	551,300	551,300	551,300
Subtotal - Water Operations	\$2,831,143	\$3,218,768	\$3,368,700	\$3,412,000	\$3,497,600	\$3,586,000
Meter Reading/Reporting						
Personnel	229,987	216,278	222,600	229,200	236,100	243,100
Supplies & Services	47,087	81,260	83,700	85,900	88,300	90,800
Capital Outlay	c 174,446	319,340	329,000	338,800	349,000	359,400
Subtotal - Meter Reading	451,520	616,878	635,300	653,900	673,400	693,300
Utility Billing	300,053	347,753	358,000	368,600	379,700	390,900
Water Conservation	13,048	11,320	11,600	11,900	12,200	12,500
Total - Water Operations (w/o Water Purchases)	3,595,764	4,194,719	4,373,600	4,446,400	4,562,900	4,682,700
Water Purchases (Pump Tax)	1,005,316	1,115,847	1,217,000	1,279,000	1,343,000	1,411,000
Total - Water Operations (with Water Purchases)	4,601,080	5,310,566	5,590,600	5,725,400	5,905,900	6,093,700
Transfers Out To/(In From) d						
Internal Service (45000)	264,808	317,299	326,800	336,600	346,700	357,100
Water Impact Fund (651)	0	1,335,000	0	(471,963)	(471,963)	(471,963)
Rate Stabil. Fund (652)	0	0	50,000	50,000	50,000	50,000
Capital Projects Fund (653)	1,450,000	1,200,000	675,000	675,000	675,000	675,000
Other (202, 720)	365,000	417,500	430,000	442,900	456,200	469,900
Subtotal - Transfers	2,079,808	3,269,799	1,481,800	1,032,537	1,055,937	1,080,037
Total - Operations & Transfers	6,680,888	8,580,365	7,072,400	6,757,937	6,961,837	7,173,737
less Misc. Non-Rate Revenue e	(\$356,495)	(\$401,347)	(\$419,500)	(\$427,700)	(\$436,100)	(\$444,700)
Net Revenue Requirements	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037
Annual Change in Revenue Requirements		29.3%	-18.7%	-4.8%	3.1%	3.1%

a. From Appendix Table BP-W1, Water Operations - Summary of Budget Projections.

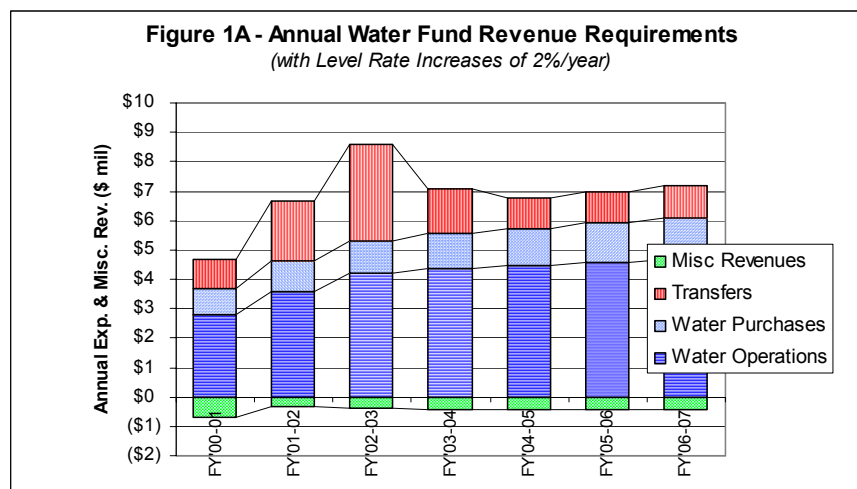
b. Projected using Adopted FY'02-03 budget and the inflation rates and City staff adjustments shown in Appendix Table BP-W1.

c. Includes "Debt Service" and "Int. Ser. & Transfers".

d. Transfers shown in Table FP-W1B.

e. Includes use of money and property, reimbursement of expenses, meter installations, delinquent charges, and other misc. current service charges.

This table indicates that net revenue requirements in FY 02-03 are almost 30% higher than the previous year, primarily due to significantly larger capital project-related transfers. There are small annual transfers from operations to the Rate Stabilization Fund (652) beginning in FY 03-04 for the purpose of maintaining the reserve target level of Fund 652. As shown in Figure 1A, the various categories of revenue requirements have steady increases in FY 03-04 and thereafter with the exception of capital-related transfers, which grew dramatically in FY 02-03 but return to more normal levels in FY 03-04.



Potential Rate Increases

There are a number of ways the City could meet these revenue requirements. We have provided an example of a commonly used approach for illustrative purposes: level rate increases sufficient to meet the requirements over the study period.

Table FP-W1C

Water Rate Increases Alternative (with Level Rate Increases of 2%/year)

City of Morgan Hill

	FY'01-02	FY'02-03	Water Financial Plan - Rate Increase Alternative				
	Est. Actual (b)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07	
Net Revenue Requirements (a)	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037	
Revenue from Rates							
Revenue from Current Rates (c)	\$5,991,000	\$5,855,915	\$5,973,000	\$6,092,000	\$6,214,000	\$6,338,000	
Revenue from previous years' rate increases	\$0	\$0	\$119,460	\$246,117	\$380,347	\$522,455	
Subtotal	\$ 5,991,000	\$ 5,855,915	\$ 6,092,460	\$ 6,338,117	\$ 6,594,347	\$ 6,860,455	
Current Year Surplus/(Deficit) (d)	\$ (333,393)	\$ (2,323,103)	\$ (560,440)	\$ 7,880	\$ 68,610	\$ 131,418	
Surplus/(Deficit) (No Rate Increases)		(\$2,323,103)	(\$679,900)	(\$238,237)	(\$311,737)	(\$391,037)	
Rate Increase Alternative			2.0%	2.0%	2.0%	2.0%	
Cumulative Rate Increase			2.0%	4.0%	6.1%	8.2%	10.4%
REVENUE FROM RATE INCREASES (e)							
Effective March 1, 2002		\$29,280	\$119,460	\$121,840	\$124,280	\$126,760	
Effective July 1, 2003			\$121,849	\$124,277	\$126,766	\$129,295	
Effective July 1, 2004				\$126,762	\$129,301	\$131,881	
Effective July 1, 2005					\$131,887	\$134,519	
Effective July 1, 2006						\$137,209	
Subtotal - Revenue from Rate Increases	\$ -	\$ 29,280	\$ 241,309	\$ 372,879	\$ 512,233	\$ 659,664	
Total Rate Revenue	\$ 5,991,000	\$ 5,885,195	\$ 6,214,309	\$ 6,464,879	\$ 6,726,233	\$ 6,997,664	
Annual Surplus/(Deficit) after Rate Increase f	\$ (333,393)	(\$2,293,823)	(\$438,591)	\$134,642	\$200,496	\$268,627	

a. From Table FP-W1A.

b. Approximate rate increase needed to meet Net Revenue Requirements. Calculated in conjunction with the reserve contributions shown in Table FP-W1B.

c. Based on 01/02 Proposed Budget, from Budget Revenue Summary, Fund 650 Water, plus an assumed growth rate of 2% from the Morgan Hill General Plan, Comm. Dev., p.25, July 2001.

d. Before current year rate increase.

Assumed Growth Rate = 2.00%

e. Rate revenue from the rate increase shown and assuming the adopted date below.

f. Transferred to Fund 650 Working Capital.

Projected Reserve Contributions and Balances

The City maintains four reserve funds in the water fund:

- Water Operations Fund (650)
- Water Impact Fund (651)
- Water Rate Stabilization Fund (652)
- Water Capital Projects Fund (653)

The flow of money between these funds and their ending balances are important aspects of the water fund's financial management, and are shown in Table FP-W1B over the next 5 years.

This table also summarizes two cases for the Water Operations Reserve Fund (650): (1) no rate increases, and (2) 2% rate increases. This second case is discussed more in Section IV. These reserve funds accumulate the beginning balances, plus any operating surplus or deficit (e.g., rate revenue less revenue requirements), plus interest earned in the fund during the year. In the Water Impact Fund (651), we have included additional revenue bond proceeds of \$1.5 million, which is necessary to avoid year-end deficits in this fund.

Table FP-W1B

Projected Reserve Contributions and Balances (with Level Rate Increases of 2%/year)

City of Morgan Hill

		FY'01-02	FY'02-03	Water Financial Plan - Transfers and Reserve Balances			
		Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations Reserve Fund (650)							
<i>Fund Balance Without Rate Increases</i>							
Beginning Fund Balance		\$3,480,150 <i>b</i>	\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282
Annual Surplus/(Deficit)		(\$333,393)	(\$2,323,103)	(\$679,900)	(\$238,237)	(\$311,737)	(\$391,037)
Interest Income		<u>\$227,000</u>	<u>\$202,796</u>	<u>\$22,942</u>	<u>\$14,330</u>	<u>\$2,434</u>	<u>\$0</u>
Ending Fund Balance (650) (<i>Without</i> Rate Incr.)		<u>\$3,373,757</u>	<u>\$1,253,450</u>	<u>\$596,492</u>	<u>\$372,585</u>	<u>\$63,282</u>	<u>(\$327,755)</u>
<i>Fund Balance With Rate Increases</i>							
	Rate Increases:		2.0%	2.0%	2.0%	2.0%	2.0%
Beginning Fund Balance		\$3,480,150	\$3,373,757	\$1,282,730	\$877,904	\$1,053,048	\$1,303,687
Annual Surplus/(Deficit)		(\$333,393)	(\$2,293,823)	(\$438,591)	\$134,642	\$200,496	\$268,627
Interest Income		<u>\$227,000</u>	<u>\$202,796</u>	<u>\$33,766</u>	<u>\$40,502</u>	<u>\$50,142</u>	<u>\$62,893</u>
Ending Fund Balance (650) (<i>With</i> Rate Incr.)		<u>\$3,373,757</u>	<u>\$1,282,730</u>	<u>\$877,904</u>	<u>\$1,053,048</u>	<u>\$1,303,687</u>	<u>\$1,635,206</u>
Minimum Target Ending Balance (25% of Oper. Budget)		<u>\$1,670,000</u>	<u>\$2,145,000</u>	<u>\$1,768,000</u>	<u>\$1,689,000</u>	<u>\$1,740,000</u>	<u>\$1,793,000</u>
Water Rate Stabilization Fund (652)							
Beginning Fund Balance		\$797,457 <i>b</i>	\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833
Interest Income		\$42,000	\$32,844	\$37,000	\$40,000	\$44,000	\$48,000
Internal Services		(\$468)	\$0	\$0	\$0	\$0	\$0
Transfer In from (Out to) Operations (650)		<u>\$0</u>	<u>\$0</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>
Ending Fund Balance		\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833	\$1,240,833
Target Ending Balance (20% of Water Sales) <i>f</i>		<u>\$1,200,000</u>	<u>\$1,200,000</u>	<u>\$1,200,000</u>	<u>\$1,200,000</u>	<u>\$1,200,000</u>	<u>\$1,300,000</u>
Water Capital Projects Fund (653)							
Beginning Fund Balance	<i>g</i>	\$3,648,853 <i>b</i>	\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482
Interest Earnings		\$29,000	\$7,662	\$39,000	\$56,000	\$50,000	\$68,000
Use of Money & Property		\$0	\$0	\$0	\$0	\$0	\$0
Re-Budgeted Capital Projects		\$0	(\$3,211,697)	\$0	\$0	\$0	\$0
Transfer In/(Out) Cap Proj. (Cur. Users)		(\$1,155,381)	(\$810,955)	(\$865,000)	(\$290,000)	(\$865,000)	(\$290,000)
Transfer in from/(out to) Operations (650) <i>e</i>		<u>\$1,450,000</u>	<u>\$1,200,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>
Ending Fund Balance		\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482	\$1,760,482
Target Ending Balance (Highest Annual CIP) <i>h</i>		<u>\$1,500,000</u>	<u>\$1,545,000</u>	<u>\$1,591,000</u>	<u>\$1,639,000</u>	<u>\$1,688,000</u>	<u>\$1,739,000</u>
Total Water Reserves (650, 652, 653) - Ending Balances							
Total Reserves (<i>Without</i> Rate Increases)		\$8,185,218	\$3,282,765	\$2,561,807	\$2,868,900	\$2,513,597	\$2,673,560
Total Reserves (<i>With</i> Rate Increases)		\$8,185,218	\$3,312,045	\$2,843,219	\$3,549,363	\$3,754,002	\$4,636,521
Total Target Reserves (650, 652, 653)		<u>\$4,370,000</u>	<u>\$4,890,000</u>	<u>\$4,559,000</u>	<u>\$4,528,000</u>	<u>\$4,628,000</u>	<u>\$4,832,000</u>
Water Impact Fund (651)							
Beginning Fund Balance		\$1,488,429 <i>b</i>	\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637
Interest Income		\$39,000	\$17,102	\$14,000	\$68,000	\$41,000	\$33,000
Impact Fees Received	<i>d</i>	\$204,000	\$407,468	\$376,000	\$436,000	\$478,000	\$502,000
Net Proceeds from New Revenue Bonds					\$1,500,000		
Repayment of New Revenue Bonds						(\$140,000)	(\$140,000)
Re-Budgeted Capital Projects		\$0	(\$1,394,241)	\$0	\$0	\$0	\$0
Transfer In From (Out To) Operations (650)		\$0	\$1,335,000	\$0	\$0	\$0	\$0
Repayment of Transfer From Operations (650)			\$0		(\$471,963)	(\$471,963)	(\$471,963)
Well Construction Refund (One-time)			\$0	\$700,000	\$0	\$0	\$0
Transfer (Out) - Water CIP (Future Users) <i>e</i>		<u>(\$1,178,961)</u>	<u>(\$900,234)</u>	<u>(\$745,000)</u>	<u>(\$120,000)</u>	<u>(\$620,000)</u>	<u>(\$120,000)</u>
Ending Fund Balance		\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637	\$864,674
Minimum Target Ending Balance (Ave. of CIP)		<u>\$660,000</u>	<u>\$680,000</u>	<u>\$700,000</u>	<u>\$720,000</u>	<u>\$740,000</u>	<u>\$760,000</u>
Balance Owed on Transfer From Operations (650)				\$1,375,050	\$930,180	\$471,963	\$0

Note: Transfers in **Bold Italic Font** are manual adjustments.

a. FY'01-02 is based on the City's 01/02 Proposed Budget, Fund 650 Water.

b. From City Finance Department records, fax from Jack Dilles, 10/1/02.

c. Determined in Water Rate Stabilization Fund (652) and Water Capital Projects Fund (653) below.

d. FY'01-02 and FY 02-03 are from current budget. After FY 02-03, revenues reflect new Impact Fees from Resolution 5592 as shown in Table CF-3.

e. From Table FP-W4, Summary of 5-Year CIP Water Projects. Funding sources in this table cover capital project costs from either Fund 651 or 653. FY 01-02 and 02-03 are budget numbers.

f. 20% of water sales to reflect a severe 1-year drought, rounded to nearest \$100,000.

g. On 6/30/01, the Water System Replacement Fund 655 was combined into the Water Capital Projects Funds 653. Source: City Finance Dept records, 10/1/02.

h. Target ending balance is the 5-year average CIP project costs for current users, from Table FP-W4.

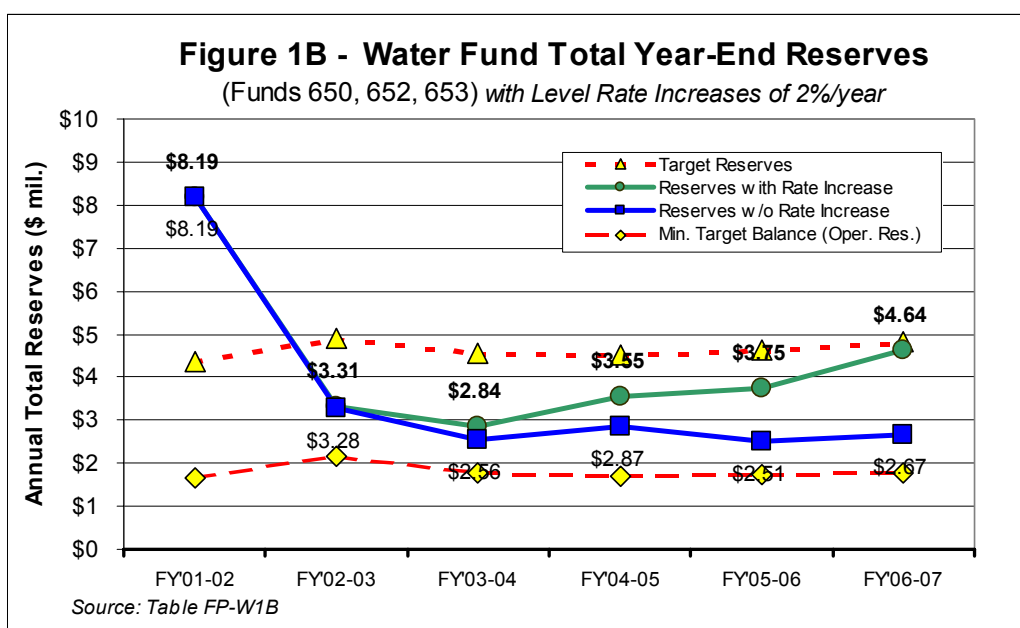
Target ending balances shown in this table for funds 650, 651, 652 and 653 are:

- Water Operations Fund (650) - The minimum target year-end balance is intended to provide the minimum advisable ending balance for a working capital reserve. Therefore, we have suggested a balance of 25% of the total operating budget, or three months of operating expenses.

- Water Rate Stabilization Fund (652) - The target balance is 20% of the annual water sales, and is intended to cover a 20% decline in water use due to a one-year drought.
- Water Impact Fund (651) and Water Capital Projects Fund (653) - The target balances for these funds are the 5-year average of the capital project costs in each.

As shown in Table FP-W1B, without the 2% rate increases, the operating fund's ending balance declines over the period, although it would still be adequate if used solely as a working capital reserve. We consider the target operations fund balance to be the minimum for the City's total reserves. Therefore, the City should carefully monitor these reserves over the next few years, particularly with regard to the need for additional revenue bonds in the Water Impact Fund (651) and the Water Capital Projects Fund (653).

Figure 1B illustrates the total reserve fund balances with and without the 2% rate increase compared to the target and minimum balances. The Water Impact Fund (651), which should be kept separate from non-impact fee funds, is not included in this total.



SEWER FINANCIAL PLAN

A similar financial plan was prepared for the Sewer Fund, and is outlined below.

Revenue Requirements

The projected revenue requirements for the Sewer Fund (640) are presented in Table FP-S1 and Figure 2, and indicate that FY 02-03 revenue requirements are about 4% higher than the previous year. The annual changes in revenue requirements are in the 1% to 5% range thereafter.

Table FP-S1

Projected Sewer Utility Revenue Requirements

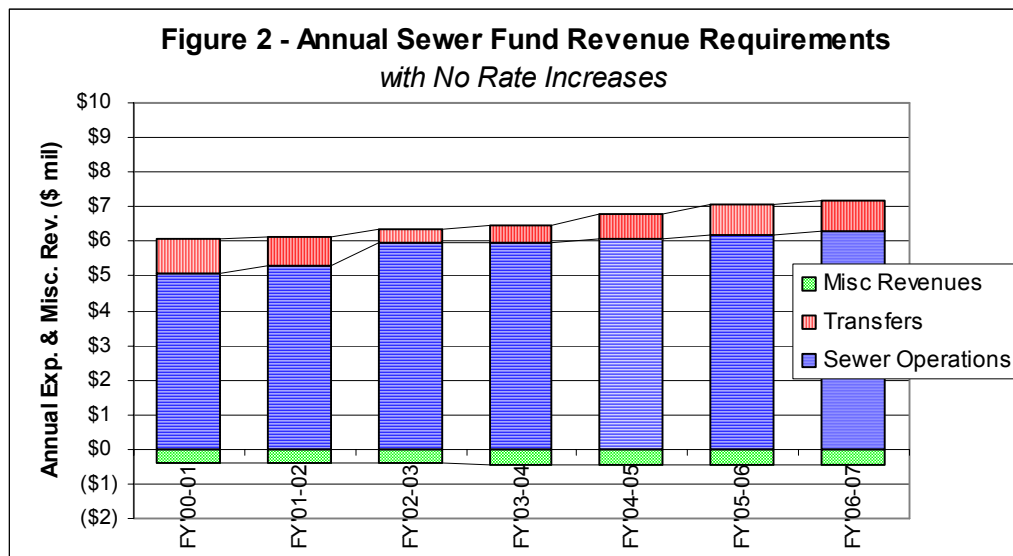
City of Morgan Hill

	YTD Expenses FY01-02 (b)	Adopted Budget FY02-03	Sewer Financial Plan - Projected Expenses and Revenues			
			Projection FY03-04	Projection FY04-05	Projection FY05-06	Projection FY06-07
Operating Expenses (a)						
Employee Services	\$794,628	\$887,520	\$970,800	\$999,900	\$1,029,900	\$1,060,900
Supplies & Services	2,536,052	2,701,686	2,782,800	2,866,300	2,952,200	3,040,700
Capital Outlay	45,567	49,725	91,200	52,800	54,400	56,000
Debt Service	1,637,946	2,069,674	1,840,688	1,842,546	1,843,146	1,843,346
Internal Services	231,586	275,252	283,500	292,000	300,700	309,700
Encumbrances	<u>51,855</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal - Operating	\$5,297,634	\$5,983,857	\$5,968,988	\$6,053,546	\$6,180,346	\$6,310,646
Transfers To/(From) (c)						
Transfer-Street	\$160,000	\$200,000	\$206,000	\$212,200	\$218,600	\$225,200
Transfer-GF Fund	15,000	17,500	18,000	18,500	19,100	19,700
Transfer - Sewer Rate Stabilization Fund 642	0	(500,000)	(400,000)	(400,000)	(300,000)	(300,000)
Transfer-Sewer Replacement Fund 643	500,000	500,000	500,000	750,000	750,000	750,000
Transfer-Water Operations Fund 650	<u>175,543</u>	<u>173,877</u>	<u>179,100</u>	<u>184,500</u>	<u>190,000</u>	<u>195,700</u>
Subtotal - Transfers	<u>\$850,543</u>	<u>\$391,377</u>	<u>\$503,100</u>	<u>\$765,200</u>	<u>\$877,700</u>	<u>\$890,600</u>
Total Revenue Requirement	\$6,148,177	\$6,375,234	\$6,472,088	\$6,818,746	\$7,058,046	\$7,201,246
less Other (Non-Rate) Revenues	(\$417,402)	(\$422,000)	(\$434,000)	(\$446,000)	(\$459,000)	(\$473,000)
Net Revenue Requirements	\$5,730,775	\$5,953,234	\$6,038,088	\$6,372,746	\$6,599,046	\$6,728,246
Annual Change in Revenue Requirements		3.9%	1.4%	5.5%	3.6%	2.0%

a. From App. Table BP-S1, Sewer Operations - Summary of Budget Projections, projections based on assumed inflation rates.

b. From App. Table BP-S1, Sewer Operations - Summary of Budget Projections.

c. From Table BP-S1 except Fund 642 and 643 which are from Table FP-S3.



Potential Rate Increases

As noted earlier, the Sewer Fund does not appear to need rate increases to maintain its reserve fund target balances during the study period. Table FP-S2 shows the projected rate revenue compared to revenue requirements and resulting net annual surplus/deficit. These surplus/deficits are carried forward and accounted for in the Sewer Operating Reserve Fund (640).

Table FP-S2

Sewer Rate Increases Alternative

City of Morgan Hill

	Est. Actual FY '01-02	Adopted Budget FY'02-03	Projected Rev. Req'ts. and Rate Revenue			
		FY'03-04	FY'04-05	FY'05-06	FY'06-07	
Net Revenue Requirements (From Table FP-S1)	\$5,730,775	\$ 5,953,234	\$ 6,038,088	\$ 6,372,746	\$ 6,599,046	\$ 6,728,246
Revenue from Rates						
Revenue from Current Rates (a)	\$5,427,323	\$5,389,650	\$5,497,000	\$5,607,000	\$5,719,000	\$5,833,000
Revenue from previous years' rate increase	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal	\$5,427,323	\$5,389,650	\$5,497,000	\$5,607,000	\$5,719,000	\$5,833,000
Surplus/(Deficit) before rate increase	(\$303,452)	(\$563,584)	(\$541,088)	(\$765,746)	(\$880,046)	(\$895,246)
Surplus/(Deficit) (No Rate Increases)	(\$303,452)	(\$563,584)	(\$541,088)	(\$765,746)	(\$880,046)	(\$895,246)
Rate Increase Alternative		0.0%	0.0%	0.0%	0.0%	0.0%
Cumulative Rate Increase		0.0%	0.0%	0.0%	0.0%	0.0%
REVENUE FROM RATE INCREASES (b)						
Effective July 1 of each year: FY 02-03		\$0	\$0	\$0	\$0	\$0
FY 03-04			0	0	0	0
FY 04-05				0	0	0
FY 05-06					0	0
FY 06-07						0
Subtotal - Revenue from Rate Increases	\$0	\$0	\$0	\$0	\$0	\$0
Total Rate Revenue	\$5,427,323	\$5,389,650	\$5,497,000	\$5,607,000	\$5,719,000	\$5,833,000
Annual Surplus/(Deficit) after Rate Increase	(\$303,452)	(\$563,584)	(\$541,088)	(\$765,746)	(\$880,046)	(\$895,246)

a. FY01-02 is from Jack Dilles, email to HF&H 5/14/02. Projections include a growth rate of 2% from the Morgan Hill General Plan, Comm. Devel., p.25, July 2001.

b. Rate revenue from the rate increase alternative in the current year.

Projected Reserve Contributions and Balances

The City maintains four reserve funds in the Sewer Fund:

- Sewer Operations Fund (640)
- Sewer Impact Fund (641)
- Sewer Rate Stabilization Fund (642)
- Sewer Capital Projects Fund (643)

The projected transfers between funds and the year-end balances over the next 4 years are shown in Table FP-S3. As with the Water Operations Reserve Fund, the Sewer Operating Reserve accumulates the beginning-year balance of Fund 640, plus any operating surplus or deficit (i.e., rate revenue less revenue requirements), plus interest earned in the fund during the year. This table shows a transfer from the rate stabilization fund to sewer operations due to excess funds that were accumulating in the rate stabilization fund. This transfer also helps avoid rate increases.

The year-end totals of the various Sewer Fund reserves exceed their target balances in almost every year. However, this assumes the City issues \$8 million in revenue bonds in FY 04-05, as shown in the City's 5 year Capital Improvements Program, to supplement the sewer impact fund (641).

As with the water fund, we have proposed target year-end balances for Sewer Funds 640, 642 and 643. These include:

- Operating Fund (640) - minimum balance of 25% of the operating budget.
- Rate Stabilization Fund (642) - minimum balance of 20% of the annual water sales, intended to cover a 20% decline in water use due to a one-year drought.
- Sewer Impact and Capital Projects Funds (641 and 643) - target is equal to the average of the capital project expenditures for future and current users, respectively.

Table FP-S3

Summary of Projected Sewer Reserve Contributions and Balances

City of Morgan Hill

	Est. Actual FY '01-02 (a)	Adopted Budget FY'02-03	Water Financial Plan - Transfers & Reserve Balances			
			FY'03-04	FY'04-05	FY'05-06	FY'06-07
Sewer Operations Fund (640)						
<i>Fund Balance Without Rate Increases</i>						
Beginning Fund Balance	\$5,564,044	\$5,260,592	\$4,697,008	\$4,155,921	\$3,390,175	\$2,510,129
Annual Surplus/(Deficit)	<u>(303,452)</u>	<u>(563,584)</u>	<u>(541,088)</u>	<u>(765,746)</u>	<u>(880,046)</u>	<u>(895,246)</u>
Ending Balance (640) (Without Rate Incr.)	\$5,260,592	\$4,697,008	\$4,155,921	\$3,390,175	\$2,510,129	\$1,614,884
Minimum Target Balance (25% of Oper. Budget)	\$1,324,000	\$1,496,000	\$1,492,000	\$1,513,000	\$1,545,000	\$1,578,000
Sewer Rate Stabilization Fund (642)						
Beginning Balance	\$3,061,482	\$3,469,485	\$3,392,863	\$3,421,863	\$3,460,863	\$3,614,863
Reimbursement of Expenses (SCRWA)	\$312,609	300,000	309,000	318,000	328,000	338,000
Interest Income (d)	97,386	123,378	120,000	121,000	126,000	133,000
Other Costs	(1,992)	0	0	0	0	0
Transfers to Operations (640)	<u>0</u>	<u>(500,000)</u>	<u>(400,000)</u>	<u>(400,000)</u>	<u>(300,000)</u>	<u>(300,000)</u>
Ending Balance	\$3,469,485	\$3,392,863	\$3,421,863	\$3,460,863	\$3,614,863	\$3,785,863
Target Balance (20% of Sewer Rate Rev.) (e)	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000	\$1,200,000
Sewer Capital Projects Fund (643) (f)						
Beginning Balance	\$3,450,429	\$3,386,172	\$1,112,489	\$293,489	\$357,489	\$423,489
Interest Income (d)	117,971	108,421	11,000	14,000	16,000	19,000
Transfer to Capital Projects (Current Users)	(682,228)	(1,820,000)	(1,330,000)	(700,000)	(700,000)	(700,000)
Re-Budgeted Capital Projects (g)	0	(1,062,104)	0	0	0	0
Add'l. Transfer In from Oper. Fund	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>
Ending Balance	\$3,386,172	\$1,112,489	\$293,489	\$357,489	\$423,489	\$492,489
Target Balance (Ave. of CIP Transfers Out) (h)	\$990,000	\$1,020,000	\$1,051,000	\$1,083,000	\$1,115,000	\$1,148,000
Total Sewer Reserves (640, 642, 643) - Ending Balances						
Total Reserves (Without Rate Increases)	\$12,116,249	\$9,202,360	\$7,871,273	\$7,208,527	\$6,548,481	\$5,893,236
Total Target Reserves (640, 642, 643)	\$6,764,000	\$3,616,000	\$3,643,000	\$3,696,000	\$3,760,000	\$3,926,000
Sewer Impact Fund (641)						
Beginning Balance	\$6,820,277	\$5,574,881	\$2,873,768	\$1,644,768	\$11,270,768	\$11,629,768
Interest Income (d)	189,744	176,887	63,000	126,000	477,000	184,000
New Revenue Bond Proceeds (i)	0	0	0	8,000,000	0	0
Debt Service on New Revenue Bonds (i)	0	0	0	0	(770,000)	(770,000)
Impact Fees Received	1,250,000	1,125,000	1,730,000	1,985,000	2,170,000	1,368,000
Transfer (Out) - Sewer CIP (Future Users)	<u>(2,685,140)</u>	<u>(4,003,000)</u>	<u>(3,022,000)</u>	<u>(485,000)</u>	<u>(1,518,000)</u>	<u>(8,386,000)</u>
Ending Balance	\$5,574,881	\$2,873,768	\$1,644,768	\$11,270,768	\$11,629,768	\$4,025,768
Target Balance (Ave. of CIP Transfers Out)	\$3,350,000	\$3,450,000	\$3,550,000	\$3,660,000	\$3,770,000	\$3,880,000

Note: Transfers in **Bold Italics Font** are manual adjustments.

a. FY'01-02 is from Estimated Actual Budget shown in Adopted FY'02-03 Budget.

b. FY01-02 beginning year balances are set to yield the ending balances provided by Finance Department, 10/1/02.

c. FY '01-02 and '02-03 impact fees are from the Adopted FY 02-03 Budget. After FY 02-03, projections from Table CF-3 are used.

d. Interest earnings on current year funds assuming a 4% interest rate.

e. 20% of Sewer service charges from total rate revenue in Table FP-S2, rounded to nearest \$100,000.

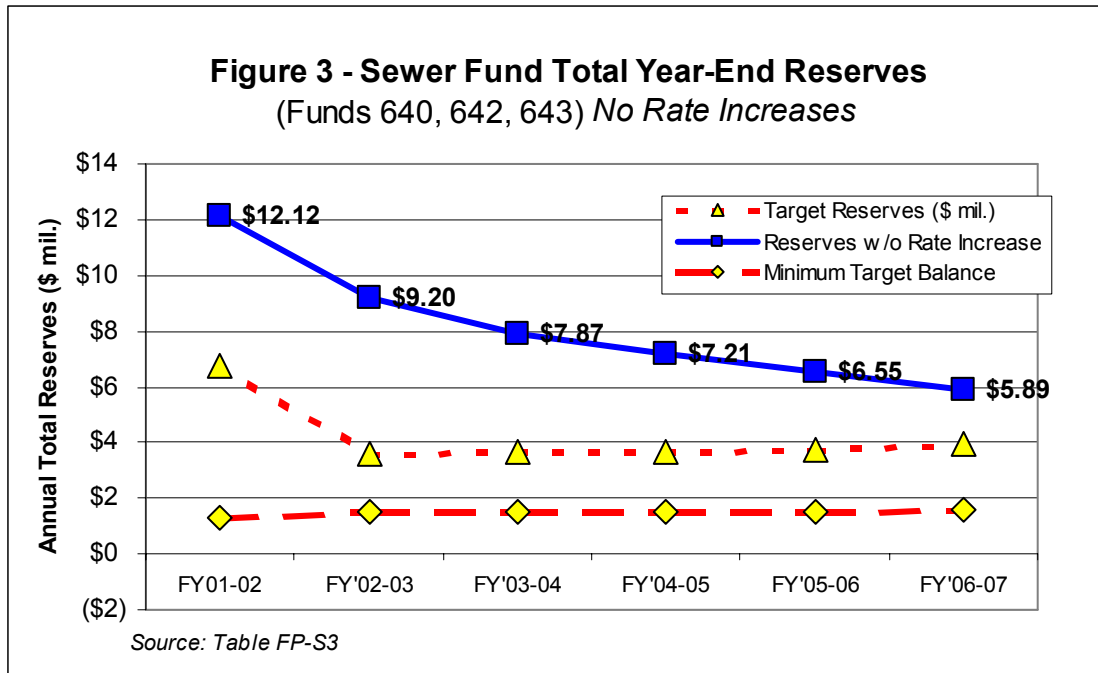
f. On 6/30/01, the Sewer System Replacement Fund 645 was combined into the Sewer Capital Projects Fund 643.

g. Projects planned for previous construction but now re-allocated to construction in '02-03. From Jack Dilles, 10/2/02.

h. Target ending balance is the 6-year average CIP project costs for current or future users, from Table FP-S4.

i. New revenue bond shown is from the City CIP dated 7-18-02. Debt service assumes 6% interest rate, 20 yr repayment, 10% issuance and reserve costs.

This table shows that without rate increases, the year-end balance of the total sewer reserves (funds 640, 642, and 643) decline from \$12.1 million to \$5.9 million, which is still well above the target reserve level of \$3.9 million. These changes in year-end total reserves are shown in Figure 3 below.



IV. RATE ALTERNATIVES TO MEET REVENUE REQUIREMENTS

The projected revenue requirements provide important information for the City to consider in developing its financial plans over the next several years. Included in these plans are the potential adjustments the City may need to make in its water and sewer rates.

Although it appears no rate increases will be needed in the Sewer Fund, the Water Fund will require additional revenue to meet the revenue requirements, including about \$1.5 million in additional debt in the Water Impact Fund (651). However, this section is not intended to provide a detailed review of alternative water rate increases. Instead, we have provided a brief overview of some alternative approaches to meeting water revenue requirements:

Alternative 1 - Level rate increases each year starting in FY 02-03,

Alternative 2 - A one-time rate increase in FY 02-03, and

Alternative 3 - Additional debt only and no rate increases.

The rate increases in the first two alternatives assume that an FY 02-03 rate increase would take effect April 1, 2003. This means there will only be additional rate revenue for the last quarter of the fiscal year. However, the higher rates will produce additional rate revenue throughout the remainder of the period.

The following is a comparison of the impacts that these three alternative rate and funding scenarios would have on annual rate revenue and the year-end balances of the water reserve funds.

ALTERNATIVE 1 – LEVEL WATER RATE INCREASES

This first alternative has level rate increases of 2%/year beginning in FY 02-03. This is the same financial plan previously shown in Section III. For purposes of comparing this alternative with Alternatives 2 and 3, the information will be presented again here.

The characteristics of this plan are that it avoids the rate-shock that can accompany large, one-time increases, and instead provides smaller annual increases that minimize the changes in customer bills.

Table FP-W1A outlines the results of increasing the water rates by 2% each year beginning in FY 02-03. Figure 1A shows the resulting reserve fund balances.

Table FP-W1A

Projected Water Fund Revenue Requirements (with Level Rate Increases of 2%/year)

City of Morgan Hill

Water Fund Expenses	FY'01-02	FY'02-03	Water Financial Plan - Projected Revenue Req'ts. (b)			
	Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations						
Employee Services	\$864,807	\$950,991	\$1,036,200	\$1,067,200	\$1,099,200	\$1,132,200
Supplies & Services (Excl. Water Purchases)	1,338,095	1,652,130	1,675,000	1,725,300	1,776,900	1,830,300
Capital Outlay	73,760	64,275	106,200	68,200	70,200	72,200
Debt Service	554,481	551,372	551,300	551,300	551,300	551,300
Subtotal - Water Operations	\$2,831,143	\$3,218,768	\$3,368,700	\$3,412,000	\$3,497,600	\$3,586,000
Meter Reading/Reporting						
Personnel	229,987	216,278	222,600	229,200	236,100	243,100
Supplies & Services	47,087	81,260	83,700	85,900	88,300	90,800
Capital Outlay	174,446 ^c	319,340	329,000	338,800	349,000	359,400
Subtotal - Meter Reading	451,520	616,878	635,300	653,900	673,400	693,300
Utility Billing	300,053	347,753	358,000	368,600	379,700	390,900
Water Conservation	13,048	11,320	11,600	11,900	12,200	12,500
Total - Water Operations (w/o Water Purchases)	3,595,764	4,194,719	4,373,600	4,446,400	4,562,900	4,682,700
Water Purchases (Pump Tax)	1,005,316	1,115,847	1,217,000	1,279,000	1,343,000	1,411,000
Total - Water Operations (with Water Purchases)	4,601,080	5,310,566	5,590,600	5,725,400	5,905,900	6,093,700
Transfers Out To/(In From) ^d						
Internal Service (45000)	264,808	317,299	326,800	336,600	346,700	357,100
Water Impact Fund (651)	0	1,335,000	0	(471,963)	(471,963)	(471,963)
Rate Stabil. Fund (652)	0	0	50,000	50,000	50,000	50,000
Capital Projects Fund (653)	1,450,000	1,200,000	675,000	675,000	675,000	675,000
Other (202, 720)	365,000	417,500	430,000	442,900	456,200	469,900
Subtotal - Transfers	2,079,808	3,269,799	1,481,800	1,032,537	1,055,937	1,080,037
Total - Operations & Transfers	6,680,888	8,580,365	7,072,400	6,757,937	6,961,837	7,173,737
less Misc. Non-Rate Revenue ^e	(\$356,495)	(\$401,347)	(\$419,500)	(\$427,700)	(\$436,100)	(\$444,700)
Net Revenue Requirements	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037
Annual Change in Revenue Requirements		29.3%	-18.7%	-4.8%	3.1%	3.1%

a. From Appendix Table BP-W1, Water Operations - Summary of Budget Projections.

b. Projected using Adopted FY'02-03 budget and the inflation rates and City staff adjustments shown in Appendix Table BP-W1.

c. Includes "Debt Service" and "Int. Ser. & Transfers".

d. Transfers shown in Table FP-W1B.

e. Includes use of money and property, reimbursement of expenses, meter installations, delinquent charges, and other misc. current service charges.

Figure 1A - Annual Water Fund Revenue Requirements
(with Level Rate Increases of 2%/year)

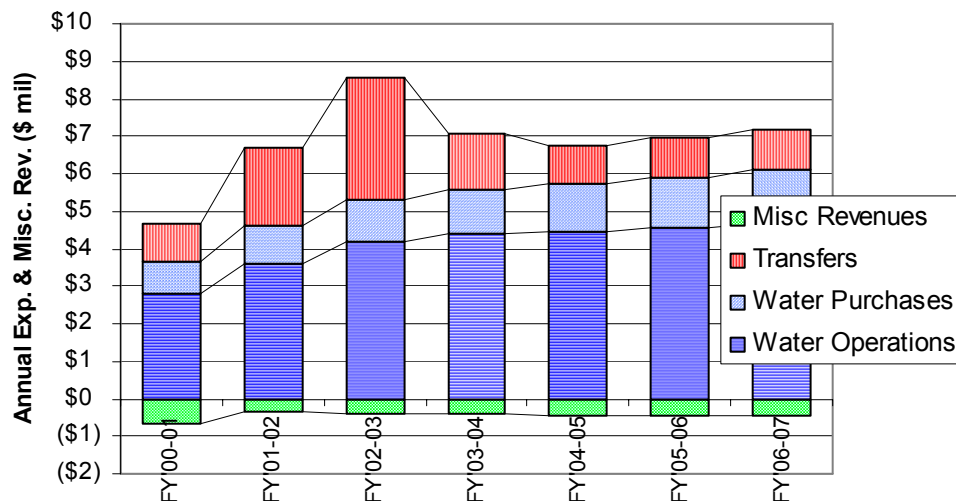


Table FP-W1C summarizes the additional rate revenue generated by these 2% rate increases, along with the annual surplus/deficits.

Table FP-W1C

Water Rate Increases Alternative (with Level Rate Increases of 2%/year)

City of Morgan Hill

	FY'01-02	FY'02-03	Water Financial Plan - Rate Increase Alternative			
	Est. Actual (b)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Net Revenue Requirements (a)	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037
Revenue from Rates						
Revenue from Current Rates (c)	\$5,991,000	\$5,855,915	\$5,973,000	\$6,092,000	\$6,214,000	\$6,338,000
Revenue from previous years' rate increases	\$0	\$0	\$119,460	\$246,117	\$380,347	\$522,455
Subtotal	\$ 5,991,000	\$ 5,855,915	\$ 6,092,460	\$ 6,338,117	\$ 6,594,347	\$ 6,860,455
Current Year Surplus/(Deficit) (d)	\$ (333,393)	\$ (2,323,103)	\$ (560,440)	\$ 7,880	\$ 68,610	\$ 131,418
Surplus/(Deficit) (No Rate Increases)		(\$2,323,103)	(\$679,900)	(\$238,237)	(\$311,737)	(\$391,037)
Rate Increase Alternative		2.0%	2.0%	2.0%	2.0%	2.0%
Cumulative Rate Increase		2.0%	4.0%	6.1%	8.2%	10.4%
REVENUE FROM RATE INCREASES (e)						
Effective March 1, 2002		\$29,280	\$119,460	\$121,840	\$124,280	\$126,760
Effective July 1, 2003			\$121,849	\$124,277	\$126,766	\$129,295
Effective July 1, 2004				\$126,762	\$129,301	\$131,881
Effective July 1, 2005					\$131,887	\$134,519
Effective July 1, 2006						\$137,209
Subtotal - Revenue from Rate Increases	\$ -	\$ 29,280	\$ 241,309	\$ 372,879	\$ 512,233	\$ 659,664
Total Rate Revenue	\$ 5,991,000	\$ 5,885,195	\$ 6,214,309	\$ 6,464,879	\$ 6,726,233	\$ 6,997,664
Annual Surplus/(Deficit) after Rate Increase f	\$ (333,393)	(\$2,293,823)	(\$438,591)	\$134,642	\$200,496	\$268,627

a. From Table FP-W1A.

b. Approximate rate increase needed to meet Net Revenue Requirements. Calculated in conjunction with the reserve contributions shown in Table FP-W1B.

c. Based on 01/02 Proposed Budget, from Budget Revenue Summary, Fund 650 Water, plus an assumed growth rate of 2% from the Morgan Hill General Plan, Comm. Devel., p.25, July 2001.

d. Before current year rate increase.

Assumed Growth Rate = 2.00%

e. Rate revenue from the rate increase shown and assuming the adopted date below.

f. Transferred to Fund 650 Working Capital.

Table FP-W1B summarizes the contributions to and ending balances of the reserve funds under a 2%/year rate increase. The results from this table are graphically presented in Figure1B.

Table FP-W1B

Projected Reserve Contributions and Balances (with Level Rate Increases of 2%/year)

City of Morgan Hill

		FY'01-02	FY'02-03	Water Financial Plan - Transfers and Reserve Balances			
		Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations Reserve Fund (650)							
<i>Fund Balance Without Rate Increases</i>							
Beginning Fund Balance		\$3,480,150 <i>b</i>	\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282
Annual Surplus/(Deficit)		(\$333,393)	(\$2,323,103)	(\$679,900)	(\$238,237)	(\$311,737)	(\$391,037)
Interest Income		<u>\$227,000</u>	<u>\$202,796</u>	<u>\$22,942</u>	<u>\$14,330</u>	<u>\$2,434</u>	<u>\$0</u>
Ending Fund Balance (650) (<i>Without</i> Rate Incr.)		\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282	(\$327,755)
<i>Fund Balance With Rate Increases</i>							
	Rate Increases:		2.0%	2.0%	2.0%	2.0%	2.0%
Beginning Fund Balance		\$3,480,150	\$3,373,757	\$1,282,730	\$877,904	\$1,053,048	\$1,303,687
Annual Surplus/(Deficit)		(\$333,393)	(\$2,293,823)	(\$438,591)	\$134,642	\$200,496	\$268,627
Interest Income		<u>\$227,000</u>	<u>\$202,796</u>	<u>\$33,766</u>	<u>\$40,502</u>	<u>\$50,142</u>	<u>\$62,893</u>
Ending Fund Balance (650) (<i>With</i> Rate Incr.)		\$3,373,757	\$1,282,730	\$877,904	\$1,053,048	\$1,303,687	\$1,635,206
Minimum Target Ending Balance (25% of Oper. Budget)		\$1,670,000	\$2,145,000	\$1,768,000	\$1,689,000	\$1,740,000	\$1,793,000
Water Rate Stabilization Fund (652)							
Beginning Fund Balance		\$797,457 <i>b</i>	\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833
Interest Income		\$42,000	\$32,844	\$37,000	\$40,000	\$44,000	\$48,000
Internal Services		(\$468)	\$0	\$0	\$0	\$0	\$0
Transfer In from (Out to) Operations (650)		<u>\$0</u>	<u>\$0</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>
Ending Fund Balance		\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833	\$1,240,833
Target Ending Balance (20% of Water Sales) <i>f</i>		\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,300,000
Water Capital Projects Fund (653)							
Beginning Fund Balance	<i>g</i>	\$3,648,853 <i>b</i>	\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482
Interest Earnings		\$29,000	\$7,662	\$39,000	\$56,000	\$50,000	\$68,000
Use of Money & Property		\$0	\$0	\$0	\$0	\$0	\$0
Re-Budgeted Capital Projects		\$0	(\$3,211,697)	\$0	\$0	\$0	\$0
Transfer In/(Out) Cap Proj. (Cur. Users)		(\$1,155,381)	(\$810,955)	(\$865,000)	(\$290,000)	(\$865,000)	(\$290,000)
Transfer in from/(out to) Operations (650) <i>e</i>		<u>\$1,450,000</u>	<u>\$1,200,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>
Ending Fund Balance		\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482	\$1,760,482
Target Ending Balance (Highest Annual CIP) <i>h</i>		\$1,500,000	\$1,545,000	\$1,591,000	\$1,639,000	\$1,688,000	\$1,739,000
Total Water Reserves (650, 652, 653) - Ending Balances							
Total Reserves (<i>Without</i> Rate Increases)		\$8,185,218	\$3,282,765	\$2,561,807	\$2,868,900	\$2,513,597	\$2,673,560
Total Reserves (<i>With</i> Rate Increases)		\$8,185,218	\$3,312,045	\$2,843,219	\$3,549,363	\$3,754,002	\$4,636,521
Total Target Reserves (650, 652, 653)		\$4,370,000	\$4,890,000	\$4,559,000	\$4,528,000	\$4,628,000	\$4,832,000
Water Impact Fund (651)							
Beginning Fund Balance		\$1,488,429 <i>b</i>	\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637
Interest Income		\$39,000	\$17,102	\$14,000	\$68,000	\$41,000	\$33,000
Impact Fees Received	<i>d</i>	\$204,000	\$407,468	\$376,000	\$436,000	\$478,000	\$502,000
Net Proceeds from New Revenue Bonds					\$1,500,000		
Repayment of New Revenue Bonds						(\$140,000)	(\$140,000)
Re-Budgeted Capital Projects		\$0	(\$1,394,241)	\$0	\$0	\$0	\$0
Transfer In From (Out To) Operations (650)		\$0	\$1,335,000	\$0	\$0	\$0	\$0
Repayment of Transfer From Operations (650)			\$0		(\$471,963)	(\$471,963)	(\$471,963)
Well Construction Refund (One-time)			\$0	\$700,000	\$0	\$0	\$0
Transfer (Out) - Water CIP (Future Users) <i>e</i>		<u>(\$1,178,961)</u>	<u>(\$900,234)</u>	<u>(\$745,000)</u>	<u>(\$120,000)</u>	<u>(\$620,000)</u>	<u>(\$120,000)</u>
Ending Fund Balance		\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637	\$864,674
Minimum Target Ending Balance (Ave. of CIP)		\$660,000	\$680,000	\$700,000	\$720,000	\$740,000	\$760,000
Balance Owed on Transfer From Operations (650)				\$1,375,050	\$930,180	\$471,963	\$0

Note: Transfers in **Bold Italics Font** are manual adjustments.

a. FY'01-02 is based on the City's 01/02 Proposed Budget, Fund 650 Water.

b. From City Finance Department records, fax from Jack Dilles, 10/1/02.

c. Determined in Water Rate Stabilization Fund (652) and Water Capital Projects Fund (653) below.

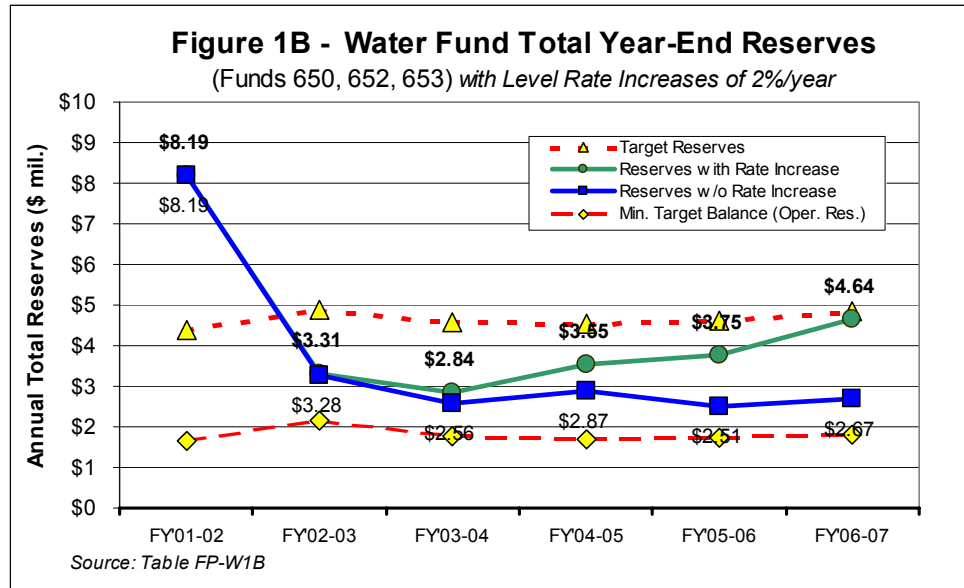
d. FY'01-02 and FY 02-03 are from current budget. After FY 02-03, revenues reflect new Impact Fees from Resolution 5592 as shown in Table CF-3.

e. From Table FP-W4, Summary of 5-Year CIP Water Projects. Funding sources in this table cover capital project costs from either Fund 651 or 653. FY 01-02 and 02-03 are budget numbers.

f. 20% of water sales to reflect a severe 1-year drought, rounded to nearest \$100,000.

g. On 6/30/01, the Water System Replacement Fund 655 was combined into the Water Capital Projects Funds 653. Source: City Finance Dept records, 10/1/02.

h. Target ending balance is the 5-year average CIP project costs for current users, from Table FP-W4.



ALTERNATIVE 2 – ONE-TIME WATER RATE INCREASE

The revenue requirements in this alternative are the same as previously shown in Table FP-W1A and Figure 1A. However, a one-time rate increase of 8% generates different amounts of rate revenue and has different impacts on the water reserve funds. These rate revenues and reserve fund impacts are summarized in Tables FP-W2C and FP-W2B, respectively. The changes in the reserves are graphically represented in Figure 2B.

Table FP-W2C

Water Rate Increase Alternative - Alternative 2 (One-Time Rate Increase)

City of Morgan Hill

	FY'01-02 Est. Actual (b)	FY'02-03 Current Plan	Water Financial Plan - Rate Increase Alternative			
			FY'03-04	FY'04-05	FY'05-06	FY'06-07
Net Revenue Requirements (a)	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037
Revenue from Rates						
Revenue from Current Rates (c)	\$5,991,000	\$5,855,915	\$5,973,000	\$6,092,000	\$6,214,000	\$6,338,000
Revenue from previous years' rate increases	\$0	\$0	\$477,840	\$487,360	\$497,120	\$507,040
Subtotal	\$ 5,991,000	\$ 5,855,915	\$ 6,450,840	\$ 6,579,360	\$ 6,711,120	\$ 6,845,040
Current Year Surplus/(Deficit) (d)	\$ (333,393)	\$ (2,323,103)	\$ (202,060)	\$ 249,123	\$ 185,383	\$ 116,003
Surplus/(Deficit) (No Rate Increases)						
Rate Increase Alternative						
Cumulative Rate Increase			8.0%	8.0%	8.0%	8.0%
REVENUE FROM RATE INCREASES (e)						
Effective March 1, 2002		\$117,118	\$477,840	\$487,360	\$497,120	\$507,040
Effective July 1, 2003			\$0	\$0	\$0	\$0
Effective July 1, 2004				\$0	\$0	\$0
Effective July 1, 2005					\$0	\$0
Effective July 1, 2006						\$0
Subtotal - Revenue from Rate Increases	\$ -	\$ 117,118	\$ 477,840	\$ 487,360	\$ 497,120	\$ 507,040
Total Rate Revenue	\$ 5,991,000	\$ 5,973,033	\$ 6,450,840	\$ 6,579,360	\$ 6,711,120	\$ 6,845,040
Annual Surplus/(Deficit) after Rate Increase f	\$ (333,393)	\$ (2,205,985)	\$ (202,060)	\$ 249,123	\$ 185,383	\$ 116,003

a. From Table FP-W2A.

b. Approximate rate increase needed to meet Net Revenue Requirements. Calculated in conjunction with the reserve contributions shown in Table FP-W2B.

c. Based on 01/02 Proposed Budget, from Budget Revenue Summary, Fund 650 Water, plus an assumed growth rate of 2% from the Morgan Hill General Plan, Comm. Devel., p.25, July 2001.

d. Before current year rate increase.

Assumed Growth Rate = 2.00%

e. Rate revenue from the rate increase shown and assuming the adopted date below.

f. Transferred to Fund 650 Working Capital.

Table FP-W2B

Projected Reserve Contributions and Balances - Alternative 2 (One-Time Rate Increase)

City of Morgan Hill

	FY'01-02	FY'02-03	Water Financial Plan - Transfers and Reserve Balances			
	Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations Reserve Fund (650)						
<i>Fund Balance Without Rate Increases</i>						
Beginning Fund Balance	\$3,480,150 ^b	\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282
Annual Surplus/(Deficit)	(\$333,393)	(\$2,323,103)	(\$679,900)	(\$238,237)	(\$311,737)	(\$391,037)
Interest Income	<u>\$227,000</u>	<u>\$202,796</u>	<u>\$22,942</u>	<u>\$14,330</u>	<u>\$2,434</u>	<u>\$0</u>
Ending Fund Balance (650) (<i>Without</i> Rate Incr.)	\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282	(\$327,755)
<i>Fund Balance With Rate Increases</i>						
	Rate Increases:	8.0%	0.0%	0.0%	0.0%	0.0%
Beginning Fund Balance	\$3,480,150	\$3,373,757	\$1,370,568	\$1,215,249	\$1,522,946	\$1,776,663
Annual Surplus/(Deficit)	(\$333,393)	(\$2,205,985)	(\$202,060)	\$249,123	\$185,383	\$116,003
Interest Income	<u>\$227,000</u>	<u>\$202,796</u>	<u>\$46,740</u>	<u>\$58,575</u>	<u>\$68,333</u>	<u>\$75,707</u>
Ending Fund Balance (650) (<i>With</i> Rate Incr.)	\$3,373,757	\$1,370,568	\$1,215,249	\$1,522,946	\$1,776,663	\$1,968,372
Minimum Target Ending Balance (25% of Oper. Budget)	\$1,670,000	\$2,145,000	\$1,768,000	\$1,689,000	\$1,740,000	\$1,793,000
Water Rate Stabilization Fund (652)						
Beginning Fund Balance	\$797,457 ^b	\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833
Interest Income	\$42,000	\$32,844	\$37,000	\$40,000	\$44,000	\$48,000
Internal Services	(\$468)	\$0	\$0	\$0	\$0	\$0
Transfer In from (Out to) Operations (650)	<u>\$0</u>	<u>\$0</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>
Ending Fund Balance	\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833	\$1,240,833
Target Ending Balance (20% of Water Sales) ^f	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,300,000
Water Capital Projects Fund (653)						
Beginning Fund Balance	^g \$3,648,853 ^b	\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482
Interest Earnings	\$29,000	\$7,662	\$39,000	\$56,000	\$50,000	\$68,000
Use of Money & Property	\$0	\$0	\$0	\$0	\$0	\$0
Re-Budgeted Capital Projects	\$0	(\$3,211,697)	\$0	\$0	\$0	\$0
Transfer In/(Out) Cap Proj. (Cur. Users)	(\$1,155,381)	(\$810,955)	(\$865,000)	(\$290,000)	(\$865,000)	(\$290,000)
Transfer in from/(out to) Operations (650) ^e	<u>\$1,450,000</u>	<u>\$1,200,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>
Ending Fund Balance	\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482	\$1,760,482
Target Ending Balance (Highest Annual CIP) ^h	\$1,500,000	\$1,545,000	\$1,591,000	\$1,639,000	\$1,688,000	\$1,739,000
Total Water Reserves (650, 652, 653) - Ending Balances						
Total Reserves (Without Rate Increases)	\$8,185,218	\$3,282,765	\$2,561,807	\$2,868,900	\$2,513,597	\$2,673,560
Total Reserves (With Rate Increases)	\$8,185,218	\$3,399,883	\$3,180,564	\$4,019,261	\$4,226,978	\$4,969,687
Total Target Reserves (650, 652, 653)	\$4,370,000	\$4,890,000	\$4,559,000	\$4,528,000	\$4,628,000	\$4,832,000
Water Impact Fund (651)						
Beginning Fund Balance	\$1,488,429 ^b	\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637
Interest Income	\$39,000	\$17,102	\$14,000	\$68,000	\$41,000	\$33,000
Impact Fees Received	^d \$204,000	\$407,468	\$376,000	\$436,000	\$478,000	\$502,000
Proceeds from New Revenue Bonds				\$1,500,000		
Repayment of New Revenue Bonds					(\$140,000)	(\$140,000)
Re-Budgeted Capital Projects	\$0	(\$1,394,241)	\$0	\$0	\$0	\$0
Transfer In From Operations (650)	\$0	\$1,335,000	\$0	\$0	\$0	\$0
Repayment of Transfer From Operations (650)		\$0		(\$471,963)	(\$471,963)	(\$471,963)
Well Construction Refund (One-time)		\$0	\$700,000	\$0	\$0	\$0
Transfer (Out) - Water CIP (Future Users) ^e	<u>(\$1,178,961)</u>	<u>(\$900,234)</u>	<u>(\$745,000)</u>	<u>(\$120,000)</u>	<u>(\$620,000)</u>	<u>(\$120,000)</u>
Ending Fund Balance	\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637	\$864,674
Minimum Target Ending Balance (Ave. of CIP)	\$660,000	\$680,000	\$700,000	\$720,000	\$740,000	\$760,000
Balance Owed on Transfer From Operations (650)			\$1,375,050	\$930,180	\$471,963	\$0

Note: Transfers in **Bold Italics Font** are manual adjustments.

a. FY'01-02 is based on the City's 01/02 Proposed Budget, Fund 650 Water.

b. From City Finance Department records, 2/26/02.

c. Determined in Water Rate Stabilization Fund (652) and Water Capital Projects Fund (653) below.

d. FY'01-02 and FY 02-03 are from current budget. After FY 02-03, revenues reflect new Impact Fees from Resolution 5592 as shown in Table CF-3.

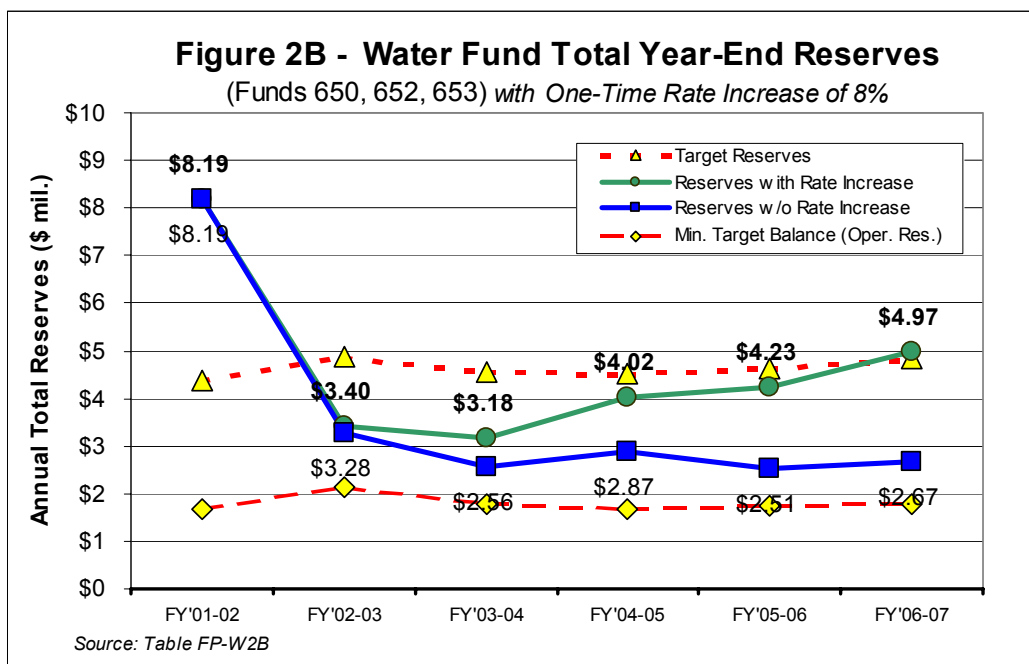
e. From Table FP-W4, Summary of 5-Year CIP Water Projects. Funding sources in this table cover capital project costs from either Fund 651 or 653. FY 01-02 and 02-03 are budget numbers.

f. 20% of water sales to reflect a severe 1-year drought, rounded to nearest \$100,000.

g. On 6/30/01, the Water System Replacement Fund 655 was combined into the Water Capital Projects Funds 653. The FY'01-02 beginning balance is for both funds.

Source: City Finance Dept records, 2/26/02.

h. Target ending balance is the 5-year average CIP project costs for current users, from Table FP-W4.



ALTERNATIVE 3 – ADDITIONAL DEBT ONLY

For this third alternative, we have assumed the City would issue an additional \$2 million in revenue bonds in FY 04-05 to fund projects in the Water Capital Projects Fund (653). We have assumed that the resulting debt service is based on a repayment period of 20 years, an interest rate of 6%, and issuance and reserve costs of 10%.

The primary benefits of this approach, which is in-lieu of rate increases, is that it avoids any rate increases, helps level out the ending fund balances, avoid deficits in fund 653, and meets overall reserve targets. The amount of additional debt incurred is a very moderate increase to the \$8 million already planned for FY 04-05. However, this does have the effect of increasing the City's repayment obligations and slightly increasing the City's revenue requirements in the long term when compared to a pay-as-you-go approach.

Table FP-W3A shows that the revenue requirements are slightly different than in Alternatives 1 and 2. This is due to different transfers to and from the reserve funds. Table FP-W3C shows the annual surplus/deficits with no rate increases, which are carried forward into the reserve fund balances shown in Table FP-W3B.

Table FP-W3A

Projected Water Fund Revenue Requirements - Alternative 3 (Additional Debt Only)

City of Morgan Hill

Water Fund Expenses	FY'01-02	FY'02-03	Water Financial Plan - Projected Revenue Req'ts. (b)			
	Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations						
Employee Services	\$864,807	\$950,991	\$1,036,200	\$1,067,200	\$1,099,200	\$1,132,200
Supplies & Services (Excl. Water Purchases)	1,338,095	1,652,130	1,675,000	1,725,300	1,776,900	1,830,300
Capital Outlay	73,760	64,275	106,200	68,200	70,200	72,200
Debt Service	554,481	551,372	551,300	551,300	551,300	551,300
Subtotal - Water Operations	\$2,831,143	\$3,218,768	\$3,368,700	\$3,412,000	\$3,497,600	\$3,586,000
Meter Reading/Reporting						
Personnel	229,987	216,278	222,600	229,200	236,100	243,100
Supplies & Services	47,087	81,260	83,700	85,900	88,300	90,800
Capital Outlay	174,446	319,340	329,000	338,800	349,000	359,400
Subtotal - Meter Reading	451,520	616,878	635,300	653,900	673,400	693,300
Utility Billing	300,053	347,753	358,000	368,600	379,700	390,900
Water Conservation	13,048	11,320	11,600	11,900	12,200	12,500
Total - Water Operations (w/o Water Purchases)	3,595,764	4,194,719	4,373,600	4,446,400	4,562,900	4,682,700
Water Purchases (Pump Tax)	1,005,316	1,115,847	1,217,000	1,279,000	1,343,000	1,411,000
Total - Water Operations (with Water Purchases)	4,601,080	5,310,566	5,590,600	5,725,400	5,905,900	6,093,700
Transfers Out To/(In From)						
Internal Service (45000)	264,808	317,299	326,800	336,600	346,700	357,100
Water Impact Fund (651)	0	1,335,000	0	(471,963)	(471,963)	(471,963)
Rate Stabil. Fund (652)	0	0	50,000	50,000	50,000	50,000
Capital Projects Fund (653)	1,450,000	1,200,000	350,000	350,000	350,000	350,000
Other (202, 720)	365,000	417,500	430,000	442,900	456,200	469,900
Subtotal - Transfers	2,079,808	3,269,799	1,156,800	707,537	730,937	755,037
Total - Operations & Transfers	6,680,888	8,580,365	6,747,400	6,432,937	6,636,837	6,848,737
less Misc. Non-Rate Revenue	(356,495)	(401,347)	(419,500)	(427,700)	(436,100)	(444,700)
Net Revenue Requirements	\$6,324,393	\$8,179,018	\$6,327,900	\$6,005,237	\$6,200,737	\$6,404,037
Annual Change in Revenue Requirements		29.3%	-22.6%	-5.1%	3.3%	3.3%

a. From App. Table BP-W1, Water Operations - Summary of Budget Projections. Source of FY '01-02: Budget Expense Summary for Fund 650 Water, Apr. 19, 2001.

b. Projected using FY'01-02 budget and the inflation rates shown in Appendix Table BP-W1.

c. Includes "Debt Service" and "Int. Ser. & Transfers", which are projected as \$0.

d. Includes use of money and property, reimbursement of expenses, meter installations, delinquent charges, and other misc. current service charges.

e. From "Transfers In" section of Table BP-S2, Projected Sewer Operations - Fund 640.

Table FP-W3C

Water Rate Increases - Alternative 3 (Additional Debt Only)

City of Morgan Hill

	FY'01-02	FY'02-03	Water Financial Plan - Rate Increase Alternative			
	Est. Actual (b)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Net Revenue Requirements (a)	\$6,324,393	\$8,179,018	\$6,327,900	\$6,005,237	\$6,200,737	\$6,404,037
Revenue from Rates						
Revenue from Current Rates (c)	\$5,991,000	\$5,855,915	\$5,973,000	\$6,092,000	\$6,214,000	\$6,338,000
Revenue from previous years' rate increases	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal	\$ 5,991,000	\$ 5,855,915	\$ 5,973,000	\$ 6,092,000	\$ 6,214,000	\$ 6,338,000
Current Year Surplus/(Deficit) (d)	\$ (333,393)	\$ (2,323,103)	\$ (354,900)	\$ 86,763	\$ 13,263	\$ (66,037)
Surplus/(Deficit) (No Rate Increases)		(\$2,323,103)	(\$354,900)	\$86,763	\$13,263	(\$66,037)
Rate Increase Alternative		0.0%	0.0%	0.0%	0.0%	0.0%
Cumulative Rate Increase		0.0%	0.0%	0.0%	0.0%	0.0%
REVENUE FROM RATE INCREASES (e)						
Effective March 1, 2002		\$0	\$0	\$0	\$0	\$0
Effective July 1, 2003			\$0	\$0	\$0	\$0
Effective July 1, 2004				\$0	\$0	\$0
Effective July 1, 2005					\$0	\$0
Effective July 1, 2006						\$0
Subtotal - Revenue from Rate Increases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Rate Revenue	\$ 5,991,000	\$ 5,855,915	\$ 5,973,000	\$ 6,092,000	\$ 6,214,000	\$ 6,338,000
Annual Surplus/(Deficit) after Rate Increase	\$ (333,393)	(\$2,323,103)	(\$354,900)	\$86,763	\$13,263	(\$66,037)

a. From Table FP-W3A.

b. Approximate rate increase needed to meet Net Revenue Requirements. Calculated in conjunction with the reserve contributions shown in Table FP-W3B.

c. Based on 01/02 Proposed Budget, from Budget Revenue Summary, Fund 650 Water, plus an assumed growth rate of 2% from the Morgan Hill General Plan, Comm. Devel., p.25, July 2001.

d. Before current year rate increase.

Assumed Growth Rate = 2.00%

e. Rate revenue from the rate increase shown and assuming the adopted date below.

f. Transferred to Fund 650 Working Capital.

Table FP-W3B

Projected Reserve Contributions and Balances - Alternative 3 (Additional Debt Only)

City of Morgan Hill

		FY'01-02	FY'02-03	Water Financial Plan - Transfers and Reserve Balances			
		Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations Reserve Fund (650)							
<i>Fund Balance Without Rate Increases</i>							
Beginning Fund Balance		\$3,480,150 <i>b</i>	\$3,373,757	\$1,253,450	\$934,492	\$1,062,105	\$1,118,383
Annual Surplus/(Deficit)		(\$333,393)	(\$2,323,103)	(\$354,900)	\$86,763	\$13,263	(\$66,037)
Interest Income		<u>\$227,000</u>	<u>\$202,796</u>	<u>\$35,942</u>	<u>\$40,850</u>	<u>\$43,015</u>	<u>\$42,094</u>
Ending Fund Balance (650) (<i>Without</i> Rate Incr.)		\$3,373,757	\$1,253,450	\$934,492	\$1,062,105	\$1,118,383	\$1,094,440
Minimum Target Ending Balance (25% of Oper. Budget)		\$1,670,000	\$2,145,000	\$1,687,000	\$1,608,000	\$1,659,000	\$1,712,000
Water Rate Stabilization Fund (652)							
Beginning Fund Balance		\$797,457 <i>b</i>	\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833
Interest Income		\$42,000	\$32,844	\$37,000	\$40,000	\$44,000	\$48,000
Internal Services		(\$468)	\$0	\$0	\$0	\$0	\$0
<i>Transfer In from (Out to) Operations (650)</i>		<u>\$0</u>	<u>\$0</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>
Ending Fund Balance		\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833	\$1,240,833
Target Ending Balance (20% of Water Sales) <i>f</i>		\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,300,000
Water Capital Projects Fund (653)							
Beginning Fund Balance	<i>g</i>	\$3,648,853 <i>b</i>	\$3,972,472	\$1,157,482	\$668,482	\$2,837,482	\$2,217,482
Interest Earnings		\$29,000	\$7,662	\$26,000	\$109,000	\$85,000	\$83,000
Use of Money & Property		\$0	\$0	\$0	\$0	\$0	\$0
Re-Budgeted Capital Projects		\$0	(\$3,211,697)	\$0	\$0	\$0	\$0
Proceeds from New Revenue Bonds					\$2,000,000		
Repayment of New Revenue Bonds						(\$190,000)	(\$190,000)
Transfer In/(Out) Cap Proj. (Cur. Users)		(\$1,155,381)	(\$810,955)	(\$865,000)	(\$290,000)	(\$865,000)	(\$290,000)
<i>Transfer in from/(out to) Operations (650)</i> <i>e</i>		<u>\$1,450,000</u>	<u>\$1,200,000</u>	<u>\$350,000</u>	<u>\$350,000</u>	<u>\$350,000</u>	<u>\$350,000</u>
Ending Fund Balance		\$3,972,472	\$1,157,482	\$668,482	\$2,837,482	\$2,217,482	\$2,170,482
Target Ending Balance (Highest Annual CIP) <i>h</i>		\$1,500,000	\$1,545,000	\$1,591,000	\$1,639,000	\$1,688,000	\$1,739,000
Total Water Reserves (650, 652, 653) - Ending Balances							
Total Reserves (Without Rate Increases)		\$8,185,218	\$3,282,765	\$2,561,807	\$4,948,420	\$4,478,698	\$4,505,755
Total Target Reserves (650, 652, 653)		\$4,370,000	\$4,890,000	\$4,478,000	\$4,447,000	\$4,547,000	\$4,751,000
Water Impact Fund (651)							
Beginning Fund Balance		\$1,488,429 <i>b</i>	\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637
Interest Income		\$39,000	\$17,102	\$14,000	\$68,000	\$41,000	\$33,000
Impact Fees Received	<i>d</i>	\$204,000	\$407,468	\$376,000	\$436,000	\$478,000	\$502,000
Proceeds from New Revenue Bonds					\$1,500,000		
Repayment of New Revenue Bonds						(\$140,000)	(\$140,000)
Re-Budgeted Capital Projects		\$0	(\$1,394,241)	\$0	\$0	\$0	\$0
<i>Transfer In From (Out To) Operations (650)</i>		\$0	\$1,335,000	\$0	\$0	\$0	\$0
<i>Repayment of Transfer From Operations (650)</i>			\$0		(\$471,963)	(\$471,963)	(\$471,963)
<i>Well Construction Refund (One-time)</i>			\$0	\$700,000	\$0	\$0	\$0
Transfer (Out) - Water CIP (Future Users) <i>e</i>		<u>(\$1,178,961)</u>	<u>(\$900,234)</u>	<u>(\$745,000)</u>	<u>(\$120,000)</u>	<u>(\$620,000)</u>	<u>(\$120,000)</u>
Ending Fund Balance		\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637	\$864,674
Minimum Target Ending Balance (Ave. of CIP)		\$660,000	\$680,000	\$700,000	\$720,000	\$740,000	\$760,000
Balance Owed on Transfer From Operations (650)				\$1,375,050	\$930,180	\$471,963	\$0

Note: Transfers in **Bold Italic Font** are manual adjustments.

a. FY'01-02 is based on the City's 01/02 Proposed Budget, Fund 650 Water.

b. From City Finance Department records, 2/26/02.

c. Determined in Water Rate Stabilization Fund (652) and Water Capital Projects Fund (653) below.

d. FY'01-02 and FY 02-03 are from current budget. After FY 02-03, revenues reflect new Impact Fees from Resolution 5592 as shown in Table CF-3.

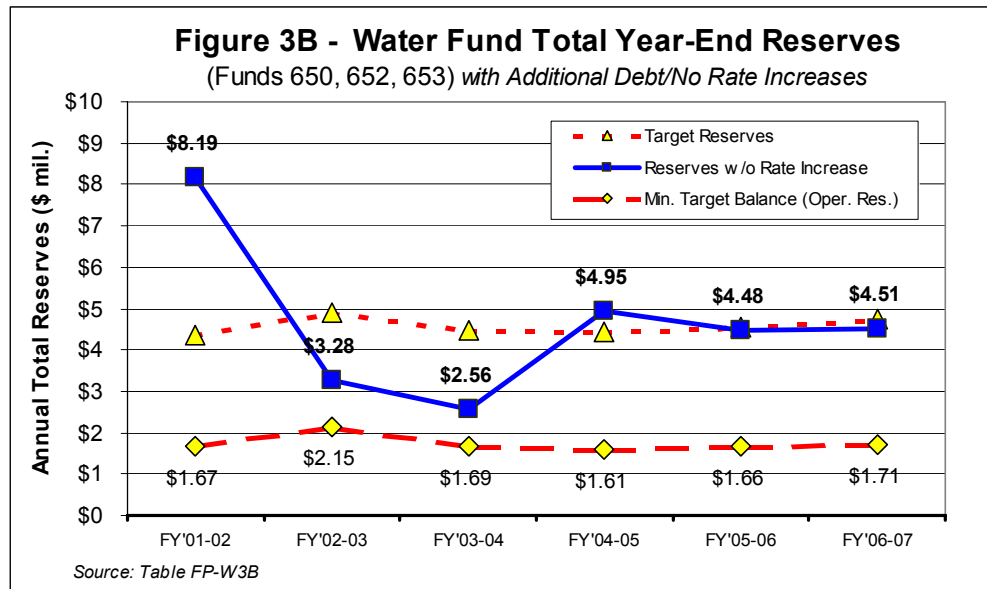
e. From Table FP-W4, Summary of 5-Year CIP Water Projects. Funding sources in this table cover capital project costs from either Fund 651 or 653. FY 01-02 and 02-03 are budget numbers.

f. 20% of water sales to reflect a severe 1-year drought, rounded to nearest \$100,000.

g. On 6/30/01, the Water System Replacement Fund 655 was combined into the Water Capital Projects Funds 653. The FY'01-02 beginning balance is for both funds.

Source: City Finance Dept records, 2/26/02.

h. Target ending balance is the 5-year average CIP project costs for current users, from Table FP-W4.



As shown in each of these three alternatives, the rate increases or additional debt are sufficient to maintain the year-end total reserve balances at or near the target level by the end of FY 06-07. However, each of them have their own benefits and difficulties, which the City will need to consider in developing more concrete plans for future funding of water revenue requirements.

APPENDIX A

Supporting Tables for Water Revenue Requirements

Table FP-W4

Summary of 5-Year CIP Water Projects

City of Morgan Hill

Project Name	Project Number	Water Financial Plan - Projected CIP Costs				
		FY'02-03	FY'03-04	FY'04-05	FY'05-06	FY'06-07
New Well Property/Construction	601,093	\$700,000	\$0	\$0	\$500,000	\$0
New Water Mains	603,093	120,000	120,000	120,000	120,000	120,000
Edmundson Main Distribution	619,002	80,000	625,000	0	0	0
Radio Telemetry	606,093	520,000	0	0	0	0
Rehabilitate Water Wells	608,093	0	190,000	0	190,000	0
Booster Pumps Rehabilitation	607,093	0	350,000	0	350,000	0
Polybutylene Service Replacement	615,095	0	325,000	0	325,000	0
Water Main Replacement	610,093	290,000	0	290,000	0	290,000
Total Projects Costs		\$1,710,000	\$1,610,000	\$410,000	\$1,485,000	\$410,000
Funding Sources						
317 - Redevelopment Agency		\$0	\$0	\$0	\$0	\$0
651 - Water Capital Exp. Fund		\$900,000	\$745,000	\$120,000	\$620,000	\$120,000
653 - Water Replacement Fund		\$810,000	\$865,000	\$290,000	\$865,000	\$290,000
Total Project Funding		\$1,710,000	\$1,610,000	\$410,000	\$1,485,000	\$410,000
Net Cost/(Surplus)		\$0	\$0	\$0	\$0	\$0

a. Source: Water System Master Plan - Final Administrative Draft Report, Table ES.2, Carollo Engineers, January 9, 2002.

b. Total costs of all intermediate-term projects allocated to current users is \$7,396,500. These projects are planned for FY 2005-10. The costs shown are assumed to be the average annual cost of those projects.

c. From Table FP-W3. Transfer from either Fund 651 or 653.

Table BP-W1

Water Operations - Summary of Budget Projections

City of Morgan Hill

Budget Category	FY'01-02		% Adjustment to '02-03	FY'02-03 Adopted	FY'02-03 Adjusted	Projected Revenue Requirements (b)			
	Est.	Actual (a)				FY'03-04	FY'04-05	FY'05-06	FY'06-07
Total Water Operations	\$ 3,836,459		110.17%	\$ 4,507,358	\$ 4,334,615	\$ 4,585,700	\$ 4,691,000	\$ 4,840,600	\$ 4,997,000
Total Meter Read/Rpr.	\$ 451,520		0.00%	\$ 616,878	\$ 616,878	\$ 635,300	\$ 653,900	\$ 673,400	\$ 693,300
Total Utility Billing	\$ 300,053		0.00%	\$ 347,753	\$ 347,753	\$ 358,000	\$ 368,600	\$ 379,700	\$ 390,900
Total Water Conservation	\$ 13,048		0.00%	\$ 11,320	\$ 11,320	\$ 11,600	\$ 11,900	\$ 12,200	\$ 12,500
Transfers	\$ 2,079,808			\$ 2,394,799	\$ 3,269,799	\$ 1,481,800	\$ 1,032,537	\$ 1,055,937	\$ 1,080,037
Total	\$ 6,680,888		110.17%	\$ 7,878,108	\$ 8,580,365	\$ 7,072,400	\$ 6,757,937	\$ 6,961,837	\$ 7,173,737
Plus Encumbrances	\$ 167,748		0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Less Non-Rate Revenues	\$ (524,243)		0.00%	\$ (401,647)	\$ (401,347)	\$ (419,500)	\$ (427,700)	\$ (436,100)	\$ (444,700)
Total Enterprise Costs:	\$ 6,324,393		110.17%	\$ 7,476,461	\$ 8,179,018	\$ 6,652,900	\$ 6,330,237	\$ 6,525,737	\$ 6,729,037
% Annual Increase				18.2%		-11.0%	-4.8%	3.1%	3.1%

a. Source of FY'01-02: FY 2002/03 Budget Process, from Jack Dilles, April 23, 2002.

b. FY'02-03 are from FY 2002/03 Budget Process, from Jack Dilles, April 23, 2002. Following years are based on 02-03 Requested Budget and projected inflation rates.

Table CF-3

Growth-Related CIP Costs and Connection Fee Revenue

City of Morgan Hill

Future Growth	Projected					
	FY01-02	FY02-03	FY03-04	FY04-05	FY05-06	FY06-07
Projected Number of DU's (a)	12,186	12,430	12,678	12,932	13,190	13,454
Growth Rate (b)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
No. of New DU's per Growth Rate	239	244	249	254	259	264
Projected Impact Fee Revenue						
Water Utility Impact Fee (c)			\$1,514	\$1,719	\$1,848	\$1,904
Water Utility Impact Fee Revenue (d)			\$376,000	\$436,000	\$478,000	\$502,000
Sewer Utility Impact Fee (c)			\$6,960	\$7,830	\$8,389	\$8,641
Sewer Utility Impact Fee Revenue (d)			\$1,730,000	\$1,985,000	\$2,170,000	\$2,279,000

a. Number of equivalent dwelling units based on City records (see Table SC-W1). EDUs include non-residential customers.

b. From Sewer System Master Plan - Final Administrative Draft Report, Table 2.2, Carollo Engineers, January 9, 2002.

c. Impact Fees adopted in City Resolution 5592, effective 1-15-03. Average of consecutive fiscal year fees is used to account for mid-year effective date.

	FY01-02	FY02-03	FY03-04	FY04-05	FY05-06	FY06-07
Current and Adopted Water Impact Fees	\$1,154	\$1,411	\$1,616	\$1,821	\$1,876	\$1,932
Fiscal Year Average		\$1,283	\$1,514	\$1,719	\$1,848	\$1,904
Current and Adopted Sewer Impact Fees	\$5,416	\$6,525	\$7,395	\$8,265	\$8,513	\$8,768
Fiscal Year Average		\$5,971	\$6,960	\$7,830	\$8,389	\$8,641

FY 05-06 and 06-07 are projected at 3%/year inflation.

d. Number of new EDUs times the Impact Fees. Rounded to the nearest \$1,000.

Table BP-W2

Projected Water Operations - Fund 650 (a)

City of Morgan Hill

	FY'01-02	% Adjustment	FY'02-03	FY'02-03	Projected Revenue Requirements (b)				Inflation
	Est. Actual	to '02-03	Adopted	Adjusted	FY'03-04	FY'04-05	FY'05-06	FY'06-07	Rate Used
Water Operations -- Employee Services									
41100 Salaries-General	\$ 585,862	100.00%	\$ 738,787	\$ 738,787	\$ 761,000	\$ 783,800	\$ 807,300	\$ 831,500	3.0%
41100 Additional Utility Worker	\$ -	100.00%	\$ -	\$ -	\$ 56,700	\$ 58,400	\$ 60,200	\$ 62,000	3.0%
41320 Salaries-Other Payouts	\$ 18,915	100.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
41490 Overtime-General	\$ 48,663	100.00%	\$ 57,000	\$ 57,000	\$ 58,700	\$ 60,500	\$ 62,300	\$ 64,200	3.0%
41799 Benefits	\$ 158,165	100.00%	\$ 192,169	\$ 192,169	\$ 197,900	\$ 203,800	\$ 209,900	\$ 216,200	3.0%
41800 Uniform	\$ 7,633	100.00%	\$ 9,535	\$ 9,535	\$ 9,800	\$ 10,100	\$ 10,400	\$ 10,700	3.0%
41900 Contract Labor	\$ 45,569	100.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
5% Vacancy Factor			\$ (46,500)	\$ (46,500)	\$ (47,900)	\$ (49,400)	\$ (50,900)	\$ (52,400)	
Subtotal	\$ 864,807	100.00%	\$ 950,991	\$ 950,991	\$ 1,036,200	\$ 1,067,200	\$ 1,099,200	\$ 1,132,200	
Water Operations -- Supplies & Services									
42205 Taxes - SCUWD Pump Tax	\$ 1,005,316	96.29%	\$ 1,158,840	\$ 1,115,847	\$ 1,217,000	\$ 1,279,000	\$ 1,343,000	\$ 1,411,000	=====>
42208 Electric	\$ 785,211	89.62%	\$ 960,750	\$ 861,000	\$ 860,100	\$ 885,900	\$ 912,500	\$ 939,900	3.0%
42214 Telephone	\$ 20,989	100.00%	\$ 25,000	\$ 25,000	\$ 25,800	\$ 26,600	\$ 27,400	\$ 28,200	3.0%
42228 Gasoline & Oil	\$ 12,057	100.00%	\$ 38,665	\$ 38,665	\$ 39,800	\$ 41,000	\$ 42,200	\$ 43,500	3.0%
42231 Contract Services	\$ 242,600	90.63%	\$ 320,130	\$ 290,130	\$ 298,800	\$ 307,800	\$ 317,000	\$ 326,500	3.0%
42240 Rentals-Outside	\$ 18,993	100.00%	\$ 6,000	\$ 6,000	\$ 6,200	\$ 6,400	\$ 6,600	\$ 6,800	3.0%
42242 Rents	\$ 29,855	100.00%	\$ 24,457	\$ 24,457	\$ 25,200	\$ 26,000	\$ 26,800	\$ 27,600	3.0%
42244 Stationary & Off. Supp.	\$ 4,315	100.00%	\$ 4,000	\$ 4,000	\$ 4,100	\$ 4,200	\$ 4,300	\$ 4,400	3.0%
42248 Other Supplies	\$ 95,158	100.00%	\$ 151,800	\$ 151,800	\$ 156,400	\$ 161,100	\$ 165,900	\$ 170,900	3.0%
42250 Advertising	\$ 522	100.00%	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	3.0%
42252 Photocopying	\$ -	100.00%	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	3.0%
42254 Postage & Freight	\$ 590	100.00%	\$ 3,200	\$ 3,200	\$ 3,300	\$ 3,400	\$ 3,500	\$ 3,600	3.0%
42257 Printing	\$ 2,379	100.00%	\$ 5,200	\$ 5,200	\$ 5,400	\$ 5,600	\$ 5,800	\$ 6,000	3.0%
42261 Auto Mileage	\$ -	100.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
42265 Auto Allowance	\$ (33)	100.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
42273 Wtr/Sewer Maint. Service	\$ 13,401	100.00%	\$ 81,500	\$ 81,500	\$ 83,900	\$ 86,400	\$ 89,000	\$ 91,700	3.0%
42281 Small Tools	\$ 4,253	100.00%	\$ 4,250	\$ 4,250	\$ 4,400	\$ 4,500	\$ 4,600	\$ 4,700	3.0%
42299 Other Expense	\$ 12,561	100.00%	\$ 20,000	\$ 20,000	\$ 20,600	\$ 21,200	\$ 21,800	\$ 22,500	3.0%
42408 Training & Education	\$ 11,776	100.00%	\$ 15,000	\$ 15,000	\$ 15,500	\$ 16,000	\$ 16,500	\$ 17,000	3.0%
42415 Conference & Meetings	\$ 2,763	100.00%	\$ 4,000	\$ 4,000	\$ 4,100	\$ 4,200	\$ 4,300	\$ 4,400	3.0%
42423 Membership & Dues	\$ 2,113	100.00%	\$ 2,700	\$ 2,700	\$ 2,800	\$ 2,900	\$ 3,000	\$ 3,100	3.0%
42435 Subscription & Pub.	\$ 783	100.00%	\$ 915	\$ 915	\$ 900	\$ 900	\$ 900	\$ 900	3.0%
42510 Maint.-Bldgs/Improve.	\$ -	100.00%	\$ 5,500	\$ 5,500	\$ 5,700	\$ 5,900	\$ 6,100	\$ 6,300	3.0%
42523 Maint.-Mach/Equipment	\$ 3,843	100.00%	\$ 9,000	\$ 9,000	\$ 9,300	\$ 9,600	\$ 9,900	\$ 10,200	3.0%
42526 Maint.-Auto/Trucks	\$ 20,409	100.00%	\$ 23,000	\$ 23,000	\$ 23,700	\$ 24,400	\$ 25,100	\$ 25,900	3.0%
42531 Maint.-Furn/Off Equip	\$ 360	100.00%	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	3.0%
42536 Maint.-Other	\$ 641	100.00%	\$ 1,650	\$ 1,650	\$ 1,700	\$ 1,800	\$ 1,900	\$ 2,000	3.0%
42550 Fleet Replacement Charge	\$ 52,556	100.00%	\$ 72,763	\$ 72,763	\$ 74,900	\$ 77,100	\$ 79,400	\$ 81,800	3.0%
Subtotal	\$ 2,343,411	94.13%	\$ 2,940,720	\$ 2,767,977	\$ 2,892,000	\$ 3,004,300	\$ 3,119,900	\$ 3,241,300	
Water Operations -- Capital Outlay									
43825 Machinery/Equipment	\$ 54,773	100.00%	\$ 44,000	\$ 44,000	\$ 85,300	\$ 46,700	\$ 48,100	\$ 49,500	3.0%
43835 Furniture/Office Equip	\$ 5,876	100.00%	\$ 7,425	\$ 7,425	\$ 7,600	\$ 7,800	\$ 8,000	\$ 8,200	3.0%
43840 Computer Equipment	\$ 7,608	100.00%	\$ 6,865	\$ 6,865	\$ 7,100	\$ 7,300	\$ 7,500	\$ 7,700	3.0%
43845 Computer Software	\$ 5,503	100.00%	\$ 5,985	\$ 5,985	\$ 6,200	\$ 6,400	\$ 6,600	\$ 6,800	3.0%
Subtotal	\$ 73,760	100.00%	\$ 64,275	\$ 64,275	\$ 106,200	\$ 68,200	\$ 70,200	\$ 72,200	
Water Operations -- Debt Service									
44990 Principal	\$ 210,320	100.00%	\$ 210,320	\$ 210,320	\$ 210,300	\$ 210,300	\$ 210,300	\$ 210,300	
44991 Interest	\$ 337,720	100.00%	\$ 337,720	\$ 337,720	\$ 337,700	\$ 337,700	\$ 337,700	\$ 337,700	
44994-5 Lease/Service Payments	\$ 6,441	100.00%	\$ 3,332	\$ 3,332	\$ 3,300	\$ 3,300	\$ 3,300	\$ 3,300	
Subtotal	\$ 554,481	100.00%	\$ 551,372	\$ 551,372	\$ 551,300	\$ 551,300	\$ 551,300	\$ 551,300	
Water Operations - Internal Service & Transfers									
45000 Internal Service	\$ 264,808	100.00%	\$ 317,299	\$ 317,299	\$ 326,800	\$ 336,600	\$ 346,700	\$ 357,100	3.0%
Tran. Out - Street Maintenance	\$ 350,000	100.00%	\$ 400,000	\$ 400,000	\$ 412,000	\$ 424,400	\$ 437,100	\$ 450,200	3.0%
Tran. Out One-Time (651)	\$ -	100.00%	\$ 460,000	\$ 1,335,000	\$ -	\$ (471,963)	\$ (471,963)	\$ (471,963)	
Tran. Out (In) (652)	\$ -		\$ -	\$ -	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	
Tran. Out - General Fund	\$ 15,000	100.00%	\$ 17,500	\$ 17,500	\$ 18,000	\$ 18,500	\$ 19,100	\$ 19,700	3.0%
Tran. Out - Water Replac. (65)	\$ 1,450,000	100.00%	\$ 1,200,000	\$ 1,200,000	\$ 675,000	\$ 675,000	\$ 675,000	\$ 675,000	
49000 Subtotal - Transfers Out	\$ 1,815,000	100.00%	\$ 2,077,500	\$ 2,952,500	\$ 1,155,000	\$ 695,937	\$ 709,237	\$ 722,937	3.0%
Subtotal - Int. Ser. & Trans. Out	\$ 2,079,808	136.54%	\$ 2,394,799	\$ 3,269,799	\$ 1,481,800	\$ 1,032,537	\$ 1,055,937	\$ 1,080,037	
Total Water Operations	\$ 5,916,267	110.17%	\$ 6,902,157	\$ 7,604,414	\$ 6,067,500	\$ 5,723,537	\$ 5,896,537	\$ 6,077,037	

Table BP-W2 (cont.)

Projected Water Operations - Fund 650 (a)

City of Morgan Hill

METER READING/REPORTING**Meter Read/Rpr. -- Personnel**

41100 Salaries-General	\$ 176,670	\$ 166,260	\$ 166,260	\$ 171,200	\$ 176,300	\$ 181,600	\$ 187,000	3.0%
41320 Salaries-Other Payouts	\$ 2,805	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
41490 Overtime-General	\$ 1,629	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	3.0%
41799 Benefits	\$ 47,214	\$ 45,768	\$ 45,768	\$ 47,100	\$ 48,500	\$ 50,000	\$ 51,500	3.0%
41800 Uniform	\$ 1,669	\$ 3,050	\$ 3,050	\$ 3,100	\$ 3,200	\$ 3,300	\$ 3,400	3.0%
Subtotal	\$ 229,987	\$ 216,278	\$ 216,278	\$ 222,600	\$ 229,200	\$ 236,100	\$ 243,100	

Meter Read/Rpr. -- Supplies & Services

42228 Gasoline & Oil	\$ 2,390	\$ 3,482	\$ 3,482	\$ 3,600	\$ 3,700	\$ 3,800	\$ 3,900	3.0%
42231 Contract Services	\$ 10,629	\$ 30,280	\$ 30,280	\$ 31,200	\$ 32,100	\$ 33,100	\$ 34,100	3.0%
42240-2 Rentals-Outside	\$ 697	\$ 746	\$ 746	\$ 800	\$ 800	\$ 800	\$ 800	3.0%
42244 Stationary & Off. Supp.	\$ 401	\$ 425	\$ 425	\$ 400	\$ 400	\$ 400	\$ 400	3.0%
42248 Other Supplies	\$ 20,165	\$ 30,700	\$ 30,700	\$ 31,600	\$ 32,500	\$ 33,500	\$ 34,500	3.0%
42252 Photocopying	\$ -	\$ 105	\$ 105	\$ 100	\$ 100	\$ 100	\$ 100	3.0%
42254 Postage & Freight	\$ 7	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	3.0%
42257 Printing	\$ -	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	3.0%
42281 Small Tools	\$ 1,750	\$ 600	\$ 600	\$ 600	\$ 600	\$ 600	\$ 600	3.0%
42408 Training & Education	\$ 802	\$ 1,510	\$ 1,510	\$ 1,600	\$ 1,600	\$ 1,600	\$ 1,600	3.0%
42523 Maint.-Mach/Equipment	\$ -	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	3.0%
42526 Maint.-Auto/Trucks	\$ 7,337	\$ 7,720	\$ 7,720	\$ 8,000	\$ 8,200	\$ 8,400	\$ 8,700	3.0%
42531 Maint.-Furn/Off Equip	\$ 46	\$ 210	\$ 210	\$ 200	\$ 200	\$ 200	\$ 200	3.0%
42536 Maint.-Other	\$ 410	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	3.0%
42550 Fleet Replacement Charge	\$ 2,453	\$ 2,382	\$ 2,382	\$ 2,500	\$ 2,600	\$ 2,700	\$ 2,800	3.0%
Subtotal	\$ 47,087	\$ 81,260	\$ 81,260	\$ 83,700	\$ 85,900	\$ 88,300	\$ 90,800	

Meter Read/Rpr. -- Capital Outlay

43825 Machinery/Equipment	\$ -	\$ 3,000	\$ 3,000	\$ 3,100	\$ 3,200	\$ 3,300	\$ 3,400	3.0%
43835 Furniture/Office Equip	\$ 344	\$ 1,425	\$ 1,425	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	3.0%
43840 Computer Equipment	\$ 272	\$ 810	\$ 810	\$ 800	\$ 800	\$ 800	\$ 800	3.0%
43845 Computer Software	\$ 1,310	\$ 1,810	\$ 1,810	\$ 1,900	\$ 2,000	\$ 2,100	\$ 2,200	3.0%
43897 Meters	\$ 118,021	\$ 250,000	\$ 250,000	\$ 257,500	\$ 265,200	\$ 273,200	\$ 281,400	3.0%
Subtotal	\$ 119,947	\$ 257,045	\$ 257,045	\$ 264,800	\$ 272,700	\$ 280,900	\$ 289,300	

Debt Service

44991 Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
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Meter Read/Rpr. - Internal Service & Transfers

Subtotal	\$ 54,499	\$ 62,295	\$ 62,295	\$ 64,200	\$ 66,100	\$ 68,100	\$ 70,100	3.0%
Total Meter Read/Rpr	\$ 451,520	\$ 616,878	\$ 616,878	\$ 635,300	\$ 653,900	\$ 673,400	\$ 693,300	

UTILITY BILLING**Utility Billing -- Employee Services**

41100 Salaries-General	\$ 120,497	\$ 144,604	\$ 144,604	\$ 148,900	\$ 153,400	\$ 158,000	\$ 162,700	3.0%
41270 Salaries-Part-Time	\$ 12,604	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
41320 Salaries-Other Payouts	\$ 1,648	\$ 2,200	\$ 2,200	\$ 2,300	\$ 2,400	\$ 2,500	\$ 2,600	3.0%
41490 Overtime-General	\$ 610	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	3.0%
41799 Benefits	\$ 32,801	\$ 33,597	\$ 33,597	\$ 34,600	\$ 35,600	\$ 36,700	\$ 37,800	3.0%
41900 Contract Labor	\$ 8,985	\$ 5,000	\$ 5,000	\$ 5,200	\$ 5,400	\$ 5,600	\$ 5,800	3.0%
Subtotal	\$ 177,145	\$ 186,901	\$ 186,901	\$ 192,500	\$ 198,300	\$ 204,300	\$ 210,400	

Utility Billing -- Supplies & Services

42214 Telephone	\$ 2,351	\$ 3,230	\$ 3,230	\$ 3,300	\$ 3,400	\$ 3,500	\$ 3,600	3.0%
42231 Contract Services	\$ 14,219	\$ 36,316	\$ 36,316	\$ 37,400	\$ 38,500	\$ 39,700	\$ 40,900	3.0%
42244 Stationary & Off. Supp.	\$ 1,900	\$ 4,500	\$ 4,500	\$ 4,600	\$ 4,700	\$ 4,800	\$ 4,900	3.0%
42252 Photocopying	\$ 10	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
42254 Postage & Freight	\$ 45,498	\$ 46,800	\$ 46,800	\$ 48,200	\$ 49,600	\$ 51,100	\$ 52,600	3.0%
42257 Printing	\$ 4,199	\$ 4,000	\$ 4,000	\$ 4,100	\$ 4,200	\$ 4,300	\$ 4,400	3.0%
42261 Auto Mileage	\$ (9)	\$ 235	\$ 235	\$ 200	\$ 200	\$ 200	\$ 200	3.0%
42408 Training & Education	\$ -	\$ 3,400	\$ 3,400	\$ 3,500	\$ 3,600	\$ 3,700	\$ 3,800	3.0%
42435 Subscription & Pub.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
42531 Maint.-Furn/Off Equip	\$ 294	\$ 712	\$ 712	\$ 700	\$ 700	\$ 700	\$ 700	3.0%
Subtotal	\$ 68,462	\$ 99,193	\$ 99,193	\$ 102,000	\$ 104,900	\$ 108,000	\$ 111,100	

Utility Billing -- Capital Outlay

43835 Furniture/Office Equip	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
43840 Computer Equipment	\$ 2,430	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
43845 Computer Software	\$ 3,725	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Subtotal	\$ 6,155	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

Utility Billing -- Debt Service

Table BP-W2 (cont.)

Projected Water Operations - Fund 650 (a)
*City of Morgan Hill***Water Fund 650 Revenues (b)****Use of Money & Property**

Interest Income		----- Included in Table FP-W3 -----						3.0%
Rent & Concessions	\$ 12,000	\$ 8,000	\$ 8,000	\$ 8,200	\$ 8,400	\$ 8,700	\$ 9,000	3.0%
Subtotal	\$ 12,000	\$ 8,000	\$ 8,000	\$ 8,200	\$ 8,400	\$ 8,700	\$ 9,000	
Charges Current Services								
Administration Fee	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	1.0%
Front Footage/Offsite	\$ 100,000	\$ 25,000	\$ 25,000	\$ 25,300	\$ 25,600	\$ 25,900	\$ 26,200	1.0%
Meter Install & Service	\$ 75,000	\$ 48,000	\$ 48,000	\$ 48,500	\$ 49,000	\$ 49,500	\$ 50,000	1.0%
Delinq. Water Turn Off/On	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	1.0%
Fire Hydrant Charge	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,200	\$ 20,400	\$ 20,600	\$ 20,800	1.0%
Subtotal	\$ 195,000	\$ 93,000	\$ 93,000	\$ 94,000	\$ 95,000	\$ 96,000	\$ 97,000	
Other Revenue								
Other Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Connection Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Misc. Reimbursement	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Reimb. of Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Reimb. of Expenses/FEMA	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Surplus Sales	\$ -	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	3.0%
Misc. Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Subtotal	\$ 10,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	
Charges Current Service								
Utility Account Set-up	\$ 22,400	\$ 29,500	\$ 29,500	\$ 29,800	\$ 30,100	\$ 30,400	\$ 30,700	1.0%
Annual Backflow Inspect	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	1.0%
Const. Inspect.-Backflow	\$ 6,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	1.0%
Utility Bill Delinq Chr.	\$ 12,000	\$ 15,000	\$ 15,000	\$ 15,200	\$ 15,400	\$ 15,600	\$ 15,800	1.0%
Delinquent Bill Charge	\$ 24,000	\$ 68,770	\$ 68,770	\$ 69,500	\$ 70,200	\$ 70,900	\$ 71,600	1.0%
Utility Service Call	\$ 2,000	\$ 8,200	\$ 8,200	\$ 8,300	\$ 8,400	\$ 8,500	\$ 8,600	1.0%
Chgs-Curr/Plans & Specs	\$ 300	\$ 300	\$ -	\$ 300	\$ 300	\$ 300	\$ 300	1.0%
Subtotal	\$ 66,700	\$ 125,770	\$ 125,470	\$ 127,100	\$ 128,400	\$ 129,700	\$ 131,000	
Transfer In								
Transfer/GF Admin.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Transfer-Sewer Ops.	\$ 240,543	\$ 173,877	\$ 173,877	\$ 189,200	\$ 194,900	\$ 200,700	\$ 206,700	3.0%
Subtotal	\$ 240,543	\$ 173,877	\$ 173,877	\$ 189,200	\$ 194,900	\$ 200,700	\$ 206,700	
Total Non-Rate Revenue	\$ 524,243	\$ 401,647	\$ 401,347	\$ 419,500	\$ 427,700	\$ 436,100	\$ 444,700	

a. Source of '01-02 subtotals: *FY 2002/03 Budget Process*, Jack Dilles, Apr 23, 2002. Details are estimated using previous '01-02 details not provided in this update.b. FY'02-03 are from *FY 2002/03 Budget Process*, from Jack Dilles, April 23, 2002. Following years are based on '02-03 Requested Budget and projected inflation rates.

c. Transfers from Water Rate Stabilization Fund are not considered here. See Financial Plan Table FP-W3.

APPENDIX B

Supporting Tables for Sewer Revenue Requirements

Table BP-S1

Budget Projections - Sewer Operations (O&M Expense Detail)

City of Morgan Hill

		YTD	5-Year Financial Plan					Inflation/Escalation Factors			
Acct	Account Name	Expenses FY01-02	Adopted Budget FY02-03	Projection FY03-04	Projection FY04-05	Projection FY05-06	Projection FY06-07	Projection FY03-04	Projection FY04-05	Projection FY05-06	Projection FY06-07
EMPLOYEE SERVICES											
41100	Salaries-General	\$	681,889	\$ 702,300	\$ 723,400	\$ 745,100	\$ 767,500	3.0%	3.0%	3.0%	3.0%
41100	Additional Utility Worker		-	56,700	58,400	60,200	62,000	3.0%	3.0%	3.0%	3.0%
41320/330	Salaries-Other Payouts		-	-	-	-	-	3.0%	3.0%	3.0%	3.0%
41490	Overtime-General		20,000	20,600	21,200	21,800	22,500	3.0%	3.0%	3.0%	3.0%
41799	Benefits		175,861	181,100	186,500	192,100	197,900	3.0%	3.0%	3.0%	3.0%
41800	Uniform		9,770	10,100	10,400	10,700	11,000	3.0%	3.0%	3.0%	3.0%
41900	Contract Labor		-	-	-	-	-	3.0%	3.0%	3.0%	3.0%
Subtotal	Employee Services	\$ 794,628	\$ 887,520	\$ 970,800	\$ 999,900	\$ 1,029,900	\$ 1,060,900				
SUPPLIES & SERVICES											
42208	Electric/Natural Gas	\$	33,075	\$ 34,100	\$ 35,100	\$ 36,200	\$ 37,300	3.0%	3.0%	3.0%	3.0%
42214	Telephone		2,300	2,400	2,500	2,600	2,700	3.0%	3.0%	3.0%	3.0%
42228	Gasoline & oil		17,914	18,500	19,100	19,700	20,300	3.0%	3.0%	3.0%	3.0%
42231	Contract Services		148,175	152,600	157,200	161,900	166,800	3.0%	3.0%	3.0%	3.0%
42240	Rents-Outside		6,500	6,700	6,900	7,100	7,300	3.0%	3.0%	3.0%	3.0%
42242	Rent-Corp. Yard		23,192	23,900	24,600	25,300	26,100	3.0%	3.0%	3.0%	3.0%
42244	Stationery & Office Supplies		1,885	1,900	2,000	2,100	2,200	3.0%	3.0%	3.0%	3.0%
42248	Other Supplies		72,960	75,100	77,400	79,700	82,100	3.0%	3.0%	3.0%	3.0%
42250	Advertising		680	700	700	700	700	3.0%	3.0%	3.0%	3.0%
42252	Photocopying		200	200	200	200	200	3.0%	3.0%	3.0%	3.0%
42254	Postage & Freight		500	500	500	500	500	3.0%	3.0%	3.0%	3.0%
42257	Printing		750	800	800	800	800	3.0%	3.0%	3.0%	3.0%
42270	SCRWA		2,196,626	2,262,500	2,330,400	2,400,300	2,472,300	3.0%	3.0%	3.0%	3.0%
42273	Sewer Maintenance Service		71,875	74,000	76,200	78,500	80,900	3.0%	3.0%	3.0%	3.0%
42281	Small Tools		6,420	6,600	6,800	7,000	7,200	3.0%	3.0%	3.0%	3.0%
42299	Other Expense		475	500	500	500	500	3.0%	3.0%	3.0%	3.0%
42408	Training & Education		13,000	13,400	13,800	14,200	14,600	3.0%	3.0%	3.0%	3.0%
42415	Conference & Meetings		1,800	1,900	2,000	2,100	2,200	3.0%	3.0%	3.0%	3.0%
42423	Membership & Dues		1,000	1,000	1,000	1,000	1,000	3.0%	3.0%	3.0%	3.0%
42435	Subscriptions & Publications		350	400	400	400	400	3.0%	3.0%	3.0%	3.0%
42523	Maintenance-Machine/Equipment		7,500	7,700	7,900	8,100	8,300	3.0%	3.0%	3.0%	3.0%
42526	Maintenance-Auto & Trucks		44,000	45,300	46,700	48,100	49,500	3.0%	3.0%	3.0%	3.0%
42531	Maintenance-Furniture/Office Equip.		735	800	800	800	800	3.0%	3.0%	3.0%	3.0%
42536	Maintenance-Other		835	900	900	900	900	3.0%	3.0%	3.0%	3.0%
42550	Fleet Replacement Charge		48,939	50,400	51,900	53,500	55,100	3.0%	3.0%	3.0%	3.0%
Misc.	Depreciation & Other Expenses		-	-	-	-	-	3.0%	3.0%	3.0%	3.0%
Subtotal	Supplies & Services	\$ 2,536,052	\$ 2,701,686	\$ 2,782,800	\$ 2,866,300	\$ 2,952,200	\$ 3,040,700				
CAPITAL OUTLAY											
43825	Machinery/Equipment	\$	30,500	\$ 71,400	\$ 32,400	\$ 33,400	\$ 34,400	3.0%	3.0%	3.0%	3.0%
43835	Furniture/Office Equipment		7,425	7,600	7,800	8,000	8,200	3.0%	3.0%	3.0%	3.0%
43840	Computer Equipment		6,865	7,100	7,300	7,500	7,700	3.0%	3.0%	3.0%	3.0%
43845	Computer Software		4,935	5,100	5,300	5,500	5,700	3.0%	3.0%	3.0%	3.0%
Subtotal	Capital Outlay	\$ 45,567	\$ 49,725	\$ 91,200	\$ 52,800	\$ 54,400	\$ 56,000				
DEBT SERVICE (After FY01-02, based on Schedules and % Allocation below)											
44990	Principal	\$	655,000	\$ 1,350,038	\$ 1,311,563	\$ 1,270,450	\$ 1,227,038	0.0%	0.0%	0.0%	0.0%
44991	Interest	\$	1,403,954	\$ 600,000	\$ 640,000	\$ 680,000	\$ 725,000	0.0%	0.0%	0.0%	0.0%
44994	Lease Payments		-	-	-	-	-	0.0%	0.0%	0.0%	0.0%
44995	Service Fees		10,720	10,720	10,720	10,720	10,720	0.0%	0.0%	0.0%	0.0%
	Savings From Re-Funding		-	(120,070)	(119,737)	(118,024)	(119,412)				
Subtotal	Debt Service	\$ 1,637,946	\$ 2,069,674	\$ 1,840,688	\$ 1,842,546	\$ 1,843,146	\$ 1,843,346				
1992 Bond Issue (From Jack Dilles, 9/21/92)											
	Principal	FY01-02	FY02-03	FY03-04	FY04-05	FY05-06	FY06-07				
	Interest										
			\$1,385,598	\$1,350,038	\$1,311,563	\$1,270,450	\$1,227,038				
			\$635,000	\$600,000	\$640,000	\$680,000	\$725,000				

Table BP-S1 (Cont.)

Budget Projections - Sewer Operations (O&M Expense Detail)*City of Morgan Hill*

INTERNAL SERVICES

45000	General Fund Admin.	\$	211,522	\$	217,900	\$	224,400	\$	231,100	\$	238,000	3.0%	3.0%	3.0%	3.0%
45001	Personnel Services		-		-		-		-		-	3.0%	3.0%	3.0%	3.0%
45002	Finance Services		-		-		-		-		-	3.0%	3.0%	3.0%	3.0%
45003	General Liability Insurance		26,448		27,200		28,000		28,800		29,700	3.0%	3.0%	3.0%	3.0%
45004	Building Maintenance		28,972		29,800		30,700		31,600		32,500	3.0%	3.0%	3.0%	3.0%
45007	Legal Services		-		-		-		-		-	3.0%	3.0%	3.0%	3.0%
45009	Information Systems		8,310		8,600		8,900		9,200		9,500	3.0%	3.0%	3.0%	3.0%
Subtotal Internal Services		\$	231,586	\$	275,252	\$	283,500	\$	292,000	\$	300,700				

TRANSFERS OUT

49201	Transfer-Street	\$	160,000	\$	200,000	\$	206,000	\$	212,200	\$	218,600	\$	225,200	3.0%	3.0%	3.0%	3.0%
49210	Transfer-General Fund		15,000		17,500		18,000		18,500		19,100		19,700	3.0%	3.0%	3.0%	3.0%
49250	Transfer-Equip Replace		-		-		-		-		-		-				
49262	Transfer-Sewer Replace		500,000		500,000		515,000		530,500		546,400		562,800	3.0%	3.0%	3.0%	3.0%
49271	Transfer-Water Operations		175,543		173,877		179,100		184,500		190,000		195,700	3.0%	3.0%	3.0%	3.0%
	Misc. Transfer-Misc Transfers		-		-		-		-		-		-	3.0%	3.0%	3.0%	3.0%
Subtotal Transfers		\$	850,543	\$	891,377	\$	918,100	\$	945,700	\$	974,100	\$	1,003,400				

Total \$ 6,096,322 \$ 6,875,234 \$ 6,887,088 \$ 6,999,246 \$ 7,154,446 \$ 7,314,046

Other (Non-Rate) Revenues

Interest Income	\$	301,002	\$	295,119	\$	304,000	\$	313,000	\$	322,000	\$	332,000	#	3.0%	3.0%	3.0%	3.0%
Administration Fee		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
J.P. Pretreatment		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
Front Footage/Offsite		20,000		20,000		21,000		22,000		23,000		24,000	#	3.0%	3.0%	3.0%	3.0%
Other Revenue		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
Connection Fees		5,000		5,000		5,000		5,000		5,000		5,000	#	3.0%	3.0%	3.0%	3.0%
Lift Station Charge		76,400		76,400		79,000		81,000		83,000		85,000	#	3.0%	3.0%	3.0%	3.0%
Reimb. of Expenses		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
Misc. Reimbursements		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
Utility Bill Delinq. Charge		15,000		12,500		13,000		13,000		13,000		13,000	#	3.0%	3.0%	3.0%	3.0%
Transfer In - Water Rate Stabil		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
Subtotal-Other Revenues		\$	417,402	\$	409,019	\$	422,000	\$	434,000	\$	446,000	\$	459,000	#			
Sewer Service Charges				\$	5,389,650												

Table FP-S4

Summary of 5-Year CIP Sewer Projects*City of Morgan Hill*

Project Name		CIP No.	Sewer Financial Plan - Projected CIP Costs				
			FY'02-03	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Trunk Lines		308094	\$150,000	\$400,000	\$8,000,000	\$0	\$0
Sanitary Sewer Rehabilitation		302093	350,000	350,000	350,000	350,000	350,000
Sewer Plant Imp. Project		303093	3,853,000	2,622,000	485,000	1,518,000	8,386,000
Lift Station Improvements		304093	630,000	630,000	0	0	0
Lift Station Telemetry		305093	400,000	0	0	0	0
Upgrade Existing Pipelines		301093	440,000	350,000	350,000	350,000	350,000
Total Projects Costs			\$5,823,000	\$4,352,000	\$9,185,000	\$2,218,000	\$9,086,000
Funding Sources							
317 - Redevelopment Agency			\$0	\$0	\$0	\$0	\$0
641 - Sewer Capital Expansion Fund			\$4,003,000	\$3,022,000	\$485,000	\$1,518,000	\$8,386,000
Sewer Revenue Bonds			\$0	\$0	\$8,000,000	\$0	\$0
643 - Sewer Replacement Fund			\$1,820,000	\$1,330,000	\$700,000	\$700,000	\$700,000
Total Project Funding			\$5,823,000	\$4,352,000	\$9,185,000	\$2,218,000	\$9,086,000
Net Cost/(Surplus)			\$0	\$0	\$0	\$0	\$0



CITY COUNCIL STAFF REPORT

MEETING DATE: *February 5, 2003*

Agenda Item # 14

Prepared By:

Asst. to the City
Manager

Submitted By:

City Manager

RESOLUTION AUTHORIZING THE SANTA CLARA COUNTY FIRE MARSHAL TO ABATE WEEDS

RECOMMENDED ACTIONS:

1. **Open/Close** Public Hearing.
2. **Adopt Resolution** authorizing the Santa Clara County Fire Marshal to Abate Weeds.
3. **Give Staff Direction** on whether to develop a policy regarding requests to remove parcels from the 2004 Hazardous Vegetation Program.

EXECUTIVE SUMMARY: In anticipation of the 2003 Hazardous Vegetation Management Program, Hazardous Vegetation Management Program Notices have been mailed to property owners in Morgan Hill whose properties have been identified as having, or potentially having, a problem with hazardous vegetation. In addition, notice of this public hearing has been published in the newspaper per Government Code Section 39556. The purpose of this public hearing is to hear from property owners who object to having their property in the 2003 Hazardous Vegetation Management Program (copy attached). The list of properties in the Program has been posted at City Hall for ten days prior to this public hearing as required. **Staff recommends that the City Council open and close the public hearing, and then adopt the attached resolution instructing the Santa Clara County Fire Marshal to abate hazardous vegetation through the Hazardous Vegetation Program.**

The City controls the growth of hazardous vegetation under the authority set out in Chapter 8.20 of the Morgan Hill Municipal Code and in Government Code Sections 39560 and following. The City has a contract with the Santa Clara County Fire Marshal's Office which provides for County abatement of the property if the property owner does not maintain the property as required. If the work is completed by the Fire Marshal's Office contractor, costs for the work are added to the owner's property tax assessment. Properties on the Hazardous Vegetation Program have been inspected by the Fire Marshal's Office and found to have unsafe vegetation during the growing season. Once a property is added to the Program, it remains on the program for three years.

Each year, the City's commencement hearing provides owners the opportunity to protest the inclusion of their parcel in the Hazardous Vegetation Program. Currently, the City does not have a policy on how to respond to property owner requests for removal from the Hazardous Vegetation Program. Such requests have been handled on a case by case basis in the past. **Staff proposes that the Council adopt guidelines for responding to such requests.** Attachment A presents options for managing such requests and outlines the consequences of removing a parcel from the program ahead of schedule. If the Council chooses to set a policy on this topic, staff recommends implementation with the 2004 Hazardous Vegetation Program. In the absence of a policy, such requests will continue to be handled on an individual basis at commencement hearings each year.

FISCAL IMPACT: The Hazardous Vegetation Management Program is user fee supported. The per-lot assessment includes the actual costs for controlling vegetation plus the overhead cost to provide the service.

ATTACHMENT A

Proposed Policies Regarding Requests for Removal from the Hazardous Vegetation Program

In accordance with state law, property owners whose parcel is placed on the Hazardous Vegetation Program have the opportunity to protest their participation in the Program at a public hearing. Currently, there are no policy guidelines on how to handle such protests, and such protests have been considered by the Council on a case by case basis. This attachment outlines the procedure for placing a property on the Program, the impact of removing a property from the Program prior to the end of the three-year timeline, and proposes policy options for responding to requests to remove a property from the Program.

How a Property is Added to the Hazardous Vegetation Program

Parcels are identified for the Hazardous Vegetation Program in one of three ways: a neighbor contacts the City or Fire Marshal's Office to complain about vegetation growth on the property; an inspector from the Fire Marshal's Office notes potentially hazardous vegetation growth on the property; or an inspector from the County Fire Department notes potentially hazardous vegetation growth on the property. Before being added to the program, a Fire Marshal's Office inspector visits the site and documents potentially hazardous vegetation. Properties are not added to the program based on neighbor complaints alone. Once a property is added to the Program, it remains on the program for three years.

Impact of Removing a Property from the Program Ahead of Schedule

After a parcel is added to the Hazardous Vegetation Program, the Fire Marshal's Office establishes a process for annual inspection and monitoring of the parcel over a three-year period. If a property owner does not maintain the property in a safe manner, participation in the program allows the Fire Marshal's Office to abate the fire hazards on the property. This abatement occurs by the end of June, prior to the usual fire season.

Once a parcel is removed from the Program, the Fire Marshal's Office does not have the authority to abate fire hazards, and has to wait until the next year to gain this authority by placing the parcel on the Hazardous Vegetation Program in the next year. In this situation, their only recourse is to try to persuade the property owner to improve their property maintenance and eliminate the hazard voluntarily. This process redirects resources needed for inspection purposes during the busiest part of the season, and does not guarantee compliance.

It is important to note that while removing a parcel from the program eliminates the complaints from the property owner, complaints may continue to be submitted from neighbors, the Fire Department, and others. The Fire Marshal's Office has been criticized by local fire departments and city administrations in the county for dropping parcels from the program prematurely.

Policy Options for Responding to Requests to Remove a Property from the Program

State law requires that the City hold a public hearing at which property owners can protest the inclusion of their parcel on the Hazardous Vegetation Program list. The Fire Marshal's Office has experienced an increase in the number of owners requesting that their parcel be taken off the list. Staff believes that having a policy on how to respond to these requests would be helpful in the administration of this program. Alternatively, the Council may wish to continue to evaluate such requests on an individual basis, as is the case now. Three policy options are outlined below for the Council's consideration.

Option 1

Continue to consider requests for removal on an individual basis, with the Council making determinations about the composition of the Program list during the public hearing process.

Option 2

Permit a parcel to be removed from the Program on property owner request *if* the owner maintained the property in a satisfactory manner for the first year of the program as documented by the Fire Marshal's Office. Following removal from the program, if the parcel is identified for placement in the Program within two years of being removed from the program, then the parcel must stay on the Program for three subsequent years. In this instance, property owners would not be eligible for withdrawing from the program prior to the end of the three-year cycle.

Option 3

Require all parcels identified for the Hazardous Vegetation Program to stay on the Program for three years, without exception.

RESOLUTION NO. 5639

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL
INSTRUCTING THE SANTA CLARA COUNTY FIRE MARSHAL TO ABATE
NUISANCE ARISING OUT OF HAZARDOUS VEGETATION GROWING UPON
LOTS OR IN FRONT OF PROPERTY IN THE CITY OF MORGAN HILL AS
REQUIRED BY ORDINANCE NO. 222, NEW SERIES.**

WHEREAS, pursuant to Ordinance No. 222, N.S., the City Council hereto adopted Resolution No. 5626 declaring hazardous vegetation growing in the City of Morgan Hill to constitute a public nuisance; and

WHEREAS, a Public Hearing was held pursuant to Resolution No. 5626 and said Ordinance No. 222, New Series, in that time and manner required by law.

NOW, THEREFORE, BE IT RESOLVED AS FOLLOWS:

1. That the Santa Clara County Fire Marshal be, and is hereby ordered, to abate the nuisance or cause the same to be abated by having the vegetation destroyed by cutting, discing or any other method as may be determined by the Fire Marshal.
2. That any property owner shall have the right to destroy or remove at his expense prior to removal of said vegetation by the Fire Marshal.
3. That the Fire Marshal shall keep an account of the cost of removing said vegetation and document such account in a report and assessment list, and file the same with the City Clerk. Such report shall refer to each separate lot or parcel of land, together with the expense of removal of hazardous vegetation therefrom.

PASSED AND ADOPTED by the City Council of Morgan Hill at a Regular Meeting held on the 5th Day of February, 2003, by the following vote.

AYES: COUNCIL MEMBERS:
NOES: COUNCIL MEMBERS:
ABSTAIN: COUNCIL MEMBERS:
ABSENT: COUNCIL MEMBERS:

☞ CERTIFICATION ☞

I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA, do hereby certify that the foregoing is a true and correct copy of Resolution No. 5639, adopted by the City Council at the Regular Meeting on February 5, 2003.

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.

DATE: _____

IRMA TORREZ, City Clerk



REDEVELOPMENT AGENCY

MEETING DATE: *February 5, 2003*

Agenda Item # 15

Prepared By:

**Recreation &
Community Services
Manager**

Submitted By:

Executive Director

PRELIMINARY FINANCIAL ANALYSIS FOR THE MORGAN HILL AQUATIC COMPLEX

RECOMMENDED ACTIONS:

1. Receive preliminary financial analysis report as prepared by The Sports Management Group and reviewed by the Council Sub-Committee
2. Provide direction on the operating subsidy and its impact on the General Fund.
3. Add as a bid alternate a moveable, hydraulically operated pool floor to form a shallow end of the 50 meter pool; build the 50 meter pool at a minimum depth of 2 meters (7ft).
4. Give Staff direction on preparing a business plan.

EXECUTIVE SUMMARY

The Aquatic Complex schematic design was approved by the Redevelopment Agency on January 22, 2003. At that meeting the Agency approved the following elements to be bid as design alternates in order to achieve a higher cost recovery ratio: 1. Add provision for a second water slide area; 2. Include the second water slide element; 3. Add two lanes to the instructional pool.

The financial analysis is in response to the schematic design and will lead to a business plan. The Council Aquatic Sub-Committee (Kennedy and Carr) have participated in the financial analysis and are prepared to discuss the report's findings with the Agency tonight. The Sports Management Group have based their work on the operating policies and pricing structures at other municipal swim complexes and input from staff and sub-committee members. The Sub-Committee would like to recommend the additional following element be included in the bid alternate documents: An alternate to build the pool to a minimum depth of 2 meters (approx. 7 ft) with a movable, hydraulically operated pool bottom to form a shallow end. The projected cost of this will be available at the meeting.

The Business Plan will follow once the preliminary financial analysis is complete. One concept still to be explored is the nature of the operator of the facility. City staff may be the operators, but now is the time to explore other opportunities to partner with operators, private and non-profit. Staff will be interviewing prospective options in the next few weeks and will discuss with the Council sub-committee on how best to proceed with evaluating these options.

The projected operating subsidy is based on assumptions for operations and revenue of the complex as detailed in the report with the following operational subsidies may be required:

Average subsidy for 9 months of operation = (\$154,000)

Average subsidy for 12 months of operation = (\$276,000).

This is for a full operational year (year 3) and does not include start up costs for years one and two. These numbers do not reflect the cost recovery impact of an additional waterslide and/or two lanes to the instructional pool. Please refer to page 26 of the report. The Agency will have to determine where these subsidizes derive from if it is not to be from the General Fund.

FISCAL IMPACT: The estimated subsidy would have a direct impact on the general fund in the amount of \$154,000 for a nine month operation or \$276,000 for a 12 month operation annually.

Morgan Hill Aquatic Complex

P R E L I M I N A R Y F I N A N C I A L A N A L Y S I S

Submitted

January 29, 2003

by

The Sports Management Group

*220 Fourth Street,
Suite 200
Oakland, CA 94607
510-251-1280*



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Financial Analysis Summary

The Sports Management Group performed a financial analysis of the proposed City of Morgan Hill Aquatic Complex. The purpose of the analysis was to develop an opinion of operating costs and revenue potential based on operating assumptions developed in association with the City of Morgan Hill and with input from a representatives of the Morgan Hill Swim Club. The analysis used the schematic plan developed by ELS Architects as the basis for the determining the services, aquatic features and amenities that are to be included in the Aquatic Complex. The financial analysis further assumes that the facility concessions will be operated by an outside contractor and the size of the concessions operation will be limited to one stand with two service windows serving the Aquatics Complex.

The anticipated cost of operation and revenue potential have been provided in a range. It is anticipated that the initial period of operation will generate lower revenue for programs and classes that require time to be marketed and to become established. The goal is to generate "high" revenue from more class participation and increased uses by competitive aquatic programs (swimming, water polo, synchronized swimming) that are anticipated to grow with the development of the new aquatics facilities.

"Low" figures represent the "worst case" scenario that could occur with inclement weather or other factors that would negatively impact participation. "High Expenses" could be attributable to increased energy costs and higher costs associated with increased participation, such as increased staffing, maintenance and, over time, the higher costs associated with aging of the facility.

Two different assumptions were made regarding the period of operation of the 50-meter pool, which has a significant impact on operating cost. The first is an assumption that the pool would operate for a 9-month period with a shutdown during the months of December, January and February. The second operating assumption is that the 50-meter pool would operate 12 months but would be closed on Sundays from November through April.

Based on 9 months of operation of the 50-meter pool and seasonal operation of the leisure and lap pool, it is anticipated that the City could achieve the "Average" cost recovery. The opinion of annual operating expense, revenue potential and cost recovery is:

	<i>Low</i>	<i>Average</i>	<i>High</i>
Probable Annual Expenses	\$810,500	\$866,000	\$921,000
Potential Annual Revenues	\$664,500	\$712,000	\$759,500
Cost Recovery Potential	72%	82%	94%
Annual Subsidy	(\$256,500)	(\$154,000)	(\$51,000)

Financial Analysis Summary

A 12 month of operation of the 50-meter pool would increase expenses by a projected \$127,000 to \$136,000 thereby increasing the annual operating expense, and cost recovery to:

	<i>Low</i>	<i>Average</i>	<i>High</i>
Probable Annual Expenses	\$939,000	\$993,000	\$1,057,000
Potential Annual Revenues	\$669,000	\$717,000	\$764,000
Cost Recovery Potential	63%	72%	81%
Annual Subsidy	(\$388,000)	(\$276,000)	(\$175,000)

The analysis indicates that there is the potential to increase revenue with the addition of attractions to the facility. The addition of a second waterslide that allows more than one rider to come down a slide with the use of an inner tube could increase capacity, recreational value and frequency of use. It is estimated that the potential net revenue increase is \$40,000 to \$50,000 annually.

Adding capacity to the 4-lane lap pool could increase revenue because of the capacity to accommodate additional participants in water exercise programs and learn to swim classes. It is estimated that the potential net revenue increase is \$39,000 to \$46,000 annually. Increasing the size and menu offerings of the concessions operation is likely to increase net revenue to the City. The potential has not been explored at the time of this report.

The projected operating subsidy reflects the typical experience of similar municipal aquatic facilities operating in Northern California. A summary is contained in the Financial Analysis Report on page 29.

The financial analysis was based on a 50-meter pool designed for participation by the general public. If a 50-meter pool does not have a 3'6" deep section it will not meet code requirements for public use. Rather, a pool that ranges in depth from 7' to 14' will be considered a "special use" pool, which by definition is a pool that can be used for one purpose only. That will prohibit activities such as lap swimming, open recreation, swim lessons, water exercise, swim team training or any program or activity that is not a competition. Also, the pool must be gated off to prevent all public access. The development of a special use pool will result in a net loss of approximately \$75,000 to \$100,000.

Operating Assumptions

The following assumptions were used to develop operating costs for the overall operation of the Morgan Hill Aquatics Complex.

Hours of Operation <i>(50 Meter Lap Pool)</i>	1.	June - August	September - May
	Monday-Friday	5:00 am - 9:00 pm	5:00 am - 9:00 pm
	Saturday	7:00 am - 8:00 pm	7:00 am - 3:00 pm
	Sunday	11:00 am - 6:00 pm	11:00 am - 3:00 pm
<i>(50 Meter Lap Pool)</i>		November - April	
	Monday-Friday	5:00 am - 9:00 pm	
	Saturday	7:00 am - 8:00 pm	
	Sunday	Closed	
<i>(Instructional Pool)</i>	2.	June - August	May and September*
	Monday-Friday	6:00 am - 9:00 pm	8:00 am - 9:00 pm
	Saturday	7:00 am - 8:00 pm	12:00 pm - 5:00 pm
	Sunday	1:00 pm - 7:00 pm	12:00 pm - 5:00 pm
<i>(Recreation Pool)</i>	3.	June - August	May and September*
	Monday-Friday	12:00 pm - 7:00 pm	closed
	Saturday	11:00 am - 7:00 pm	12:00 pm - 5:00 pm
	Sunday	1:00 pm - 6:00 pm	1:00 pm - 5:00 pm
<i>(Waterslide)</i>	4.	June - August	May and September*
	Monday-Friday	12:00 pm - 8:00 pm	closed
	Saturday	11:00 pm - 7:00 pm	12:00 pm - 5:00 pm
	Sunday	1:00 pm - 6:30 pm	12:00 pm - 5:00 pm
	5.	Pool users will pay a daily admission fee or purchase a pass to gain admittance to the facility.	
	6.	Part-time Attendants are scheduled to assist Maintenance staff in daily opening/closing of pool and providing additional maintenance support during weekday peak times and on weekends.	

**Last two weeks
of May and first two
weeks of September
(Weekends only)*

Expense Assumptions

1. Salaries are based upon current Morgan Hill salary ranges.
2. Wages and benefits costs are projected for all full and part-time staff. Indirect salary costs or overhead charges for other Department or City staff positions or administration are not included in the budget.
3. Employee benefits are calculated at 35% of gross annual salaries for full-time employees and 7.65% for part-time employees.
4. The actual cost of telecommunications and utility services will be charges to the Complex's budget.
5. Classes and lessons will be taught by non-contractual instructors hired as permanent part-time staff.
6. All part-time staff will be required to wear a uniform. (i.e. a staff shirt with Center identification). An allocation of \$35 per part-time employee, \$75 per lifeguard and \$35 per full-time employee will be made.
7. Pool chemical costs are estimated at \$2.00 to \$2.25 per square foot of water surface.
8. Consumable supplies including locker room soap, body shampoos (showers), cleaning supplies, and janitorial equipment used for custodial purposes. Estimated to a range between \$600 to \$750 per month.
9. Annual repairs to major equipment such as pool play features or waterslide. Estimated to a range between \$1,000 to \$1,100 per month.
10. Building repair and maintenance has been estimated to a range between \$400 to \$500 per month.
11. Pool utility costs are estimated at \$7.15 to \$8.15 per square foot.

Planning Assumptions

The Sports Management Group developed preliminary operating costs and revenue potential for the Morgan Hill Aquatics Complex based on high entertainment value recreational water features. This includes, but is not limited to:

1. A 5,316 square foot of recreation/activity pool
2. A four-tiered WaterColor interactive play structure from Koala's SCS Interactive.
3. One body slide.
4. An 800 square foot sprayground with a minimum of \$85,000 worth of interactive play features.
5. A concessions stand with a minimum of two service windows and a good product mix such as hot dogs, pizza, chips, sodas, frozen yogurt, soft serve ice cream, popcorn etc., and miscellaneous convenience items including, but not limited to, goggles, nose plugs, swim diapers, and water bottles.
6. Developed lawn and deck area will be increased over the preliminary plans submitted to Council to accommodate the anticipated attendance levels.
7. A 4-lane instructional lap pool accommodating programs such as swim lessons, and water exercise.
8. A 50-meter pool designed for participation by the general public (i.e. a non-special use pool).

Probable Operating Costs

9 Months of Operation

50 Meter Pool
Recreation/Activity Pool
Spray Ground
4-Lane Instructional Pool

The following analysis is based upon a City operated model.
Other operating models could potentially change operating costs, staffing requirements, and rates.

SALARIES AND BENEFITS

Full-Time Salaries	Low	Average	High
Aquatics Manager	\$58,000	\$62,500	\$67,000
Assistant Aquatics Manager (50%)	\$25,000	\$27,500	\$30,000
Building/Pool Maintenance Technician	\$35,000	\$39,000	\$43,000
Administrative Assistant	\$38,500	\$42,750	\$47,000
Subtotal Full-Time Salaries	\$156,500	\$171,750	\$187,000

Benefits and Overtime: Full-Time Employees

Overtime	\$2,000	\$2,000	\$2,000
Full-Time Staff Benefits (35%)	\$47,000	\$51,500	\$56,000
Subtotal Benefits and Overtime	\$49,000	\$53,500	\$58,000

Part-Time Employee Salaries

Cashiers	\$36,000	\$37,000	\$38,000
Event Attendants	\$10,000	\$11,000	\$12,000
Head Lifeguard	\$18,000	\$19,000	\$20,000
Lifeguards	\$131,000	\$133,000	\$135,000
Water Safety Instructors	\$27,000	\$28,000	\$29,000
Aquatic Fitness Instructors	\$18,000	\$19,000	\$20,000
Subtotal Part-Time Salaries	\$240,000	\$247,000	\$254,000

Benefits: Hourly Employees

Hourly Staff Benefits (7.65%)	\$24,000	\$24,500	\$25,000
Subtotal Benefits	\$24,000	\$24,500	\$25,000

Total Salaries and Benefits	\$469,500	\$496,750	\$524,000
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Probable Operating Costs

OPERATING EXPENSES

Uniforms	Low	Average	High
Full-Time Staff Uniforms	\$250	\$250	\$250
Part-Time Staff Uniforms	\$250	\$250	\$250
Lifeguard Uniforms	\$1,000	\$1,500	\$2,000
Subtotal Uniforms	\$1,500	\$2,000	\$2,500

Travel/Training			
Travel	\$1,500	\$1,750	\$2,000
Training	\$2,000	\$2,000	\$2,000
Subtotal Travel/Training	\$3,500	\$3,750	\$4,000

Communication Services			
Telecommunications	\$5,000	\$6,000	\$7,000
Subtotal Communication Services	\$5,000	\$6,000	\$7,000

Repair and Maintenance			
Contract Custodial	\$9,000	\$10,000	\$11,000
Building Repair and Maintenance	\$5,000	\$5,500	\$6,000
Landscaping Maintenance	\$54,000	\$57,000	\$60,000
Equipment Repair and Maintenance	\$11,000	\$12,000	\$13,000
Janitorial and Paper Supplies	\$12,000	\$13,000	\$14,000
Small Tools & Other Miscellaneous Equipment	\$5,000	\$5,000	\$5,000
Subtotal Repair and Maintenance	\$96,000	\$102,500	\$109,000

Supplies & Materials			
Office Supplies	\$6,000	\$6,500	\$7,000
Lifeguard Safety Equipment	\$2,500	\$2,500	\$2,500
Postage	\$3,000	\$3,500	\$4,000
Program and Recreational Supplies	\$24,000	\$25,500	\$27,000
Pool Chemicals	\$26,000	\$28,000	\$30,000
Equipment under \$2,500	\$7,000	\$8,000	\$9,000
Subtotal Supplies & Materials	\$68,500	\$74,000	\$79,500

MORGAN HILL AQUATIC COMPLEX

Probable Operating Costs

OPERATING EXPENSES

	Low	Average	High
Marketing and Promotions			
Marketing and Promotions	\$15,500	\$15,500	\$15,500
Subtotal Marketing and Promotions	\$15,500	\$15,500	\$15,500
Contract Services/Service Agreements			
Contract Services	\$25,000	\$25,000	\$35,000
HVAC	\$2,000	\$2,500	\$3,000
Safety Equipment	\$2,500	\$3,000	\$3,500
Pay Phones	\$1,000	\$1,000	\$1,000
Subtotal Service Agreements/Lease(s)	\$30,500	\$31,500	\$42,500
Utilities			
Pool Utilities	\$100,000	\$107,000	\$114,000
Building Utilities	\$14,000	\$15,000	\$16,000
Subtotal Utilities	\$114,000	\$122,000	\$130,000
Other Expenses			
Dues & Subscriptions	\$1,500	\$1,750	\$2,000
Miscellaneous	\$5,000	\$5,000	\$5,000
Subtotal Other	\$6,500	\$6,750	\$7,000
 <i>Subtotal Operating Expenses</i>	 <i>\$341,000</i>	 <i>\$364,000</i>	 <i>\$397,000</i>
Total Probable Operating Costs	\$810,500	\$860,750	\$921,000

Probable Operating Costs

12 Months of Operation

*50 Meter Pool
Recreation/Activity Pool
Spray Ground
4-Lane Instructional Pool*

SALARIES AND BENEFITS

Full-Time Salaries	Low	Average	High
Aquatics Manager	\$58,000	\$62,500	\$67,000
Assistant Aquatics Manager (50%)	\$25,000	\$27,500	\$30,000
Building/Pool Maintenance Technician	\$35,000	\$39,000	\$43,000
Administrative Assistant	\$38,500	\$42,750	\$47,000
Subtotal Full-Time Salaries	\$156,500	\$171,750	\$187,000
Benefits and Overtime: Full-Time Employees			
Overtime	\$2,000	\$2,000	\$2,000
Full-Time Staff Benefits (35%)	\$47,000	\$51,500	\$56,000
Subtotal Benefits and Overtime	\$49,000	\$53,500	\$58,000
Part-Time Employee Salaries			
Cashiers	\$44,000	\$45,000	\$46,000
Event Attendants	\$10,000	\$11,000	\$12,000
Head Lifeguard	\$18,000	\$19,000	\$20,000
Lifeguards	\$196,000	\$198,000	\$200,000
Water Safety Instructors	\$27,000	\$28,000	\$29,000
Aquatic Fitness Instructors	\$18,000	\$19,000	\$20,000
Subtotal Part-Time Salaries	\$313,000	\$320,000	\$327,000
Benefits: Hourly Employees			
Hourly Staff Benefits (7.65%)	\$24,000	\$24,500	\$25,000
Subtotal Benefits	\$24,000	\$24,500	\$25,000
Total Salaries and Benefits	\$542,500	\$569,750	\$597,000

Probable Operating Costs

OPERATING EXPENSES

Uniforms	Low	Average	High
Full-Time Staff Uniforms	\$250	\$250	\$250
Part-Time Staff Uniforms	\$250	\$250	\$250
Lifeguard Uniforms	\$1,000	\$1,500	\$2,000
Subtotal Uniforms	\$1,500	\$2,000	\$2,500
Travel/Training			
Travel	\$1,500	\$1,750	\$2,000
Training	\$2,000	\$2,000	\$2,000
Subtotal Travel/Training	\$3,500	\$3,750	\$4,000
Communication Services			
Telecommunications	\$5,000	\$6,000	\$7,000
Subtotal Communication Services	\$5,000	\$6,000	\$7,000
Repair and Maintenance			
Contract Custodial	\$9,000	\$10,000	\$11,000
Building Repair and Maintenance	\$5,000	\$5,500	\$6,000
Landscaping Maintenance	\$72,000	\$76,000	\$80,000
Equipment Repair and Maintenance	\$11,000	\$12,000	\$13,000
Janitorial and Paper Supplies	\$12,000	\$13,000	\$14,000
Small Tools & Other Miscellaneous Equipment	\$5,000	\$5,000	\$5,000
Subtotal Repair and Maintenance	\$114,000	\$121,500	\$129,000
Supplies & Materials			
Office Supplies	\$6,000	\$6,500	\$7,000
Lifeguard Safety Equipment	\$2,500	\$2,500	\$2,500
Postage	\$3,000	\$3,500	\$4,000
Program and Recreational Supplies	\$24,000	\$25,500	\$27,000
Pool Chemicals	\$34,000	\$36,000	\$38,000
Equipment under \$2,500	\$7,000	\$8,000	\$9,000
Subtotal Supplies & Materials	\$76,500	\$82,000	\$87,500

MORGAN HILL AQUATIC COMPLEX

Probable Operating Costs

OPERATING EXPENSES

	Low	Average	High
Marketing and Promotions			
Marketing and Promotions	\$15,500	\$15,500	\$15,500
Subtotal Marketing and Promotions	\$15,500	\$15,500	\$15,500
Contract Services/Service Agreements			
Contract Services	\$25,000	\$25,000	\$35,000
HVAC	\$2,000	\$2,500	\$3,000
Safety Equipment	\$2,500	\$3,000	\$3,500
Pay Phones	\$1,000	\$1,000	\$1,000
Subtotal Service Agreements/Lease(s)	\$30,500	\$31,500	\$42,500
Utilities			
Pool Utilities	\$126,000	\$135,000	\$144,000
Building Utilities	\$18,000	\$19,500	\$21,000
Subtotal Utilities	\$144,000	\$154,500	\$165,000
Other Expenses			
Dues & Subscriptions	\$1,000	\$1,500	\$2,000
Miscellaneous	\$5,000	\$5,000	\$5,000
Subtotal Other	\$6,000	\$6,500	\$7,000
Subtotal Operating Expenses	\$396,500	\$423,250	\$460,000
Total Probable Operating Costs	\$939,000	\$993,000	\$1,057,000

Staffing Detail

	Summer	F/W/S	Total Wages
Cashiers			
No. of hours per week	143	45	
No. of weeks per year	12	38	
Hourly Rate	\$13.00	\$13.00	
Expense	\$22,308	\$22,230	\$44,538
Attendants			
No. of hours per week	36	12	
No. of weeks per year	12	38	
Hourly Rate	\$12.00	\$12.00	
Expense	\$5,184	\$5,472	\$10,656
Recreation Activity Pool Lifeguards			
No. of hours per week	302	34	
No. of weeks per year	12	4	
Hourly Rate	\$13.00	\$13.00	
Expense	\$47,112	\$1,768	\$48,880
Instructional Pool Lifeguards			
No. of hours per week	w/Rec Pool	20	
No. of weeks per year	12	16	
Hourly Rate	\$13.00	\$13.00	
Expense	\$0	\$4,160	\$4,160
Competitive Pool Lifeguards: Summer, Sept., Oct., May			
No. of hours per week	280	245	
No. of weeks per year	12	13	
Hourly Rate	\$13.00	\$13.00	
Expense	\$43,680	\$41,405	\$85,085
Competitive Pool Lifeguards: November through April			
No. of hours per week	0	184	
No. of weeks per year	0	25	
Hourly Rate	\$13.00	\$13.00	
Expense	\$0	\$59,800	\$59,800

Staffing Detail

Head Lifeguard

No. of hours per week	40	20	
No. of weeks per year	12	38	
Hourly Rate	\$15.00	\$15.00	
Expense	\$7,200	\$11,400	\$18,600

Water Safety Instructors

No. of hours per week	60	30	
No. of weeks per year	12	38	
Hourly Rate	\$15.00	\$15.00	
Expense	\$10,800	\$17,100	\$27,900

Aquatic Fitness Instructors

No. of hours per week	30	10	
No. of weeks per year	12	38	
Hourly Rate	\$25.00	\$25.00	
Expense	\$9,000	\$9,500	\$18,500

MORGAN HILL AQUATIC COMPLEX

Staffing Detail

Cashiers

Summer

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Time	No. of Staff per hour						
4:30 AM							
5:00 AM							
5:30 AM							
6:00 AM		1	1	1	1	1	
7:00 AM		1	1	1	1	1	1
8:00 AM		1	1	1	1	1	1
9:00 AM		1	1	1	1	1	1
10:00 AM	1	1	1	1	1	1	1
11:00 AM	1	1	1	1	1	1	1
12:00 PM	2	2	2	2	2	2	2
1:00 PM	2	2	2	2	2	2	2
2:00 PM	2	2	2	2	2	2	2
3:00 PM	2	2	2	2	2	2	2
4:00 PM	2	2	2	2	2	2	2
5:00 PM	1	2	2	2	2	2	2
6:00 PM		2	2	2	2	2	2
7:00 PM		1	1	1	1	1	1
8:00 PM		1	1	1	1	1	
9:00 PM							
10:00 PM							
11:00 PM							
Hours	13	22	22	22	22	22	20

Full-Time Staff

Total Hrs 143

Cashiers

Fall/Winter/Spring

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Time	No. of Staff per hour						
4:30 AM							
5:00 AM							
5:30 AM							
6:00 AM							
7:00 AM							
8:00 AM							1
9:00 AM							1
10:00 AM	1						1
11:00 AM	1						1
12:00 PM	1						1
1:00 PM	1						1
2:00 PM	1						1
3:00 PM	1						1
4:00 PM	1	1	1	1	1	1	1
5:00 PM	1	1	1	1	1	1	1
6:00 PM		1	1	1	1	1	1
7:00 PM		1	1	1	1	1	1
8:00 PM		1	1	1	1	1	
9:00 PM							
10:00 PM							
11:00 PM							
Hours	8	5	5	5	5	5	12

Full-Time Staff

Total Hrs 45



Staffing Detail

Event Attendant start and end hours will vary dependant upon scheduled events, rentals, competitions, activities and programs.

Event Attendants							Summer
	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Time	No. of Staff per hour						
4:30 AM							
5:00 AM							
5:30 AM							
6:00 AM							
7:00 AM							2
8:00 AM							2
9:00 AM							2
10:00 AM							2
11:00 AM	2						2
12:00 PM	2						2
1:00 PM	2						2
2:00 PM	2						2
3:00 PM							
4:00 PM						2	
5:00 PM						2	
6:00 PM						2	
7:00 PM						2	
8:00 PM						2	
9:00 PM						2	
10:00 PM							
11:00 PM							
Hours	8	0	0	0	0	12	16

Full-Time Staff

Total Hrs 36

Event Attendants							Fall/Winter/Spring
	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Time	No. of Staff per hour						
4:30 AM							
5:00 AM							
5:30 AM							
6:00 AM							
7:00 AM							1
8:00 AM							1
9:00 AM							1
10:00 AM							1
11:00 AM	1						1
12:00 PM	1						1
1:00 PM	1						1
2:00 PM	1						1
3:00 PM							
4:00 PM							
5:00 PM							
6:00 PM							
7:00 PM							
8:00 PM							
9:00 PM							
10:00 PM							
11:00 PM							
Hours	4	0	0	0	0	0	8

Full-Time Staff

Total Hrs 12

MORGAN HILL AQUATIC COMPLEX

Staffing Detail

Recreation Activity Pool Lifeguards Summer

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Time	No. of Staff per hour						
4:30 AM							
5:00 AM							
5:30 AM							
6:00 AM							
7:00 AM							
8:00 AM							
9:00 AM							
10:00 AM							
11:00 AM							6
12:00 PM		6	6	6	6	6	6
1:00 PM	6	6	6	6	6	6	6
2:00 PM	6	6	6	6	6	6	6
3:00 PM	6	6	6	6	6	6	6
4:00 PM	6	6	6	6	6	6	6
5:00 PM	6	6	6	6	6	6	6
6:00 PM	2	6	6	6	6	6	6
7:00 PM		2	2	2	2	2	2
8:00 PM							
9:00 PM							
10:00 PM							
11:00 PM							
Hours	32	44	44	44	44	44	50

Total Hrs	302
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Recreation Activity Pool Lifeguards Fall/Winter/Spring

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Time	No. of Staff per hour						
4:30 AM							
5:00 AM							
5:30 AM							
6:00 AM							
7:00 AM							
8:00 AM							
9:00 AM							
10:00 AM							
11:00 AM							
12:00 PM	0						0
1:00 PM	4						4
2:00 PM	4						4
3:00 PM	4						4
4:00 PM	4						4
5:00 PM	1						1
6:00 PM							
7:00 PM							
8:00 PM							
9:00 PM							
10:00 PM							
11:00 PM							
Hours	17	0	0	0	0	0	17

Total Hrs	34
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MORGAN HILL AQUATIC COMPLEX

Staffing Detail

50 Meter Pool Lifeguards

Summer

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Time	No. of Staff per hour						
4:30 AM							
5:00 AM							
5:30 AM		2	2	2	2	2	
6:00 AM		2	2	2	2	2	
7:00 AM		2	2	2	2	2	4
8:00 AM		2	2	2	2	2	4
9:00 AM		2	2	2	2	2	4
10:00 AM		2	2	2	2	2	4
11:00 AM	4	2	2	2	2	2	4
12:00 PM	4	2	2	2	2	2	4
1:00 PM	4	2	2	2	2	2	4
2:00 PM	4	2	2	2	2	2	4
3:00 PM	4	2	2	2	2	2	4
4:00 PM	4	4	4	4	4	4	4
5:00 PM	4	4	4	4	4	4	4
6:00 PM		4	4	4	4	4	4
7:00 PM		4	4	4	4	4	4
8:00 PM		2	2	2	2	2	
9:00 PM							
10:00 PM							
11:00 PM							
Hours	28	40	40	40	40	40	52

Total Hrs	280
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50 Meter Pool Lifeguards

Sept., Oct., May

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Time	No. of Staff per hour						
4:30 AM							
5:00 AM							
5:30 AM		2	2	2	2	2	
6:00 AM		2	2	2	2	2	
7:00 AM		2	2	2	2	2	3
8:00 AM		2	2	2	2	2	3
9:00 AM		2	2	2	2	2	3
10:00 AM		2	2	2	2	2	3
11:00 AM	3	2	2	2	2	2	3
12:00 PM	3	2	2	2	2	2	3
1:00 PM	3	3	3	3	3	3	3
2:00 PM	3	3	3	3	3	3	3
3:00 PM	3	3	3	3	3	3	
4:00 PM	3	3	3	3	3	3	
5:00 PM	3	3	3	3	3	3	
6:00 PM		3	3	3	3	3	
7:00 PM		3	3	3	3	3	
8:00 PM		3	3	3	3	3	
9:00 PM							
10:00 PM							
11:00 PM							
Hours	21	40	40	40	40	40	24

Total Hrs	245
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MORGAN HILL AQUATIC COMPLEX

Staffing Detail

50 Meter Pool Lifeguards

Nov. - April

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Time	No. of Staff per hour						
4:30 AM							
5:00 AM							
5:30 AM		2	2	2	2	2	
6:00 AM		2	2	2	2	2	
7:00 AM		2	2	2	2	2	3
8:00 AM		2	2	2	2	2	3
9:00 AM		2	2	2	2	2	3
10:00 AM		2	2	2	2	2	3
11:00 AM		2	2	2	2	2	3
12:00 PM		2	2	2	2	2	3
1:00 PM		2	2	2	2	2	3
2:00 PM		2	2	2	2	2	3
3:00 PM		2	2	2	2	2	
4:00 PM		2	2	2	2	2	
5:00 PM		2	2	2	2	2	
6:00 PM		2	2	2	2	2	
7:00 PM		2	2	2	2	2	
8:00 PM		2	2	2	2	2	
9:00 PM							
10:00 PM							
11:00 PM							
Hours	0	32	32	32	32	32	24

Total Hrs 184

Instructional Pool Lifeguards

Fall/Winter/Spring

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Time	No. of Staff per hour						
4:30 AM							
5:00 AM							
5:30 AM							
6:00 AM							
7:00 AM							
8:00 AM							
9:00 AM							
10:00 AM							
11:00 AM							
12:00 PM	1						1
1:00 PM	2						2
2:00 PM	2						2
3:00 PM	2						2
4:00 PM	2						2
5:00 PM	1						1
6:00 PM							
7:00 PM							
8:00 PM							
9:00 PM							
10:00 PM							
11:00 PM							
Hours	10	0	0	0	0	0	10

Full-Time Staff

Total Hrs 20



MORGAN HILL AQUATIC COMPLEX

Potential Revenue

*50 Meter Pool
Recreation/Activity Pool
Spray Ground
4-Lane Instructional Pool*

Summer	Low	Average	High
Open Recreation	\$300,000	\$309,500	\$319,000
Lap Swim	\$21,000	\$22,000	\$23,000
Master Swim	\$8,000	\$10,000	\$12,000
Fitness Classes	\$18,000	\$21,000	\$24,000
Lessons	\$77,000	\$80,000	\$83,000
Special Events	\$16,000	\$17,500	\$19,000
Birthday Parties	\$26,000	\$30,000	\$34,000
Summer Camps	\$9,000	\$10,000	\$11,000
Swim Team Rentals	\$8,000	\$8,000	\$8,000
Water Polo Rentals	\$1,000	\$1,500	\$2,000
Miscellaneous Aquatic Classes	\$20,000	\$22,500	\$25,000
Tournaments/Competitions	\$2,000	\$2,000	\$2,000
Pool Rentals	\$8,000	\$9,500	\$11,000
Concessions/Merchandise	\$59,000	\$64,500	\$70,000
Subtotal Summer Revenue	\$573,000	\$608,000	\$643,000
Fall and Spring			
Lap Swim	\$27,000	\$29,500	\$32,000
Master Swim	\$13,000	\$16,000	\$19,000
Fitness Classes	\$1,000	\$1,500	\$2,000
Lessons	\$8,000	\$9,000	\$10,000
Swim Team Rentals	\$23,000	\$23,000	\$23,000
Water Polo Rentals	\$4,000	\$4,500	\$5,000
Tournaments/Competitions	\$1,000	\$1,500	\$2,000
Pool Rentals	\$2,000	\$2,500	\$3,000
Concessions/Merchandise	\$17,000	\$21,000	\$25,000
Subtotal Fall and Spring Revenue	\$96,000	\$108,500	\$121,000
Total Potential Revenue (rounded)	\$669,000	\$716,500	\$764,000

Potential Revenue

RECREATION POOL - SUMMER

Open Recreation	Low	High
Avg. No. of Participants per Week	4125	4375
No. of Weeks	16	16
Avg. Fee per Participant	\$4.55	\$4.55
Subtotal Revenue	\$300,300	\$318,500

Summer Camps

Avg. No. of Camps per Week	1	1
Avg. No. Weeks	12	12
Avg. No. of Participants per Event	10	12
Avg. Fee per Participant	\$75	\$75
Subtotal Revenue	\$9,000	\$10,800

Special Events (Family Night)

Avg. No. of Participants per Week	250	300
No. of Weeks per Year	16	16
Avg. Fee per Participant	\$4.00	\$4.00
Subtotal Revenue	\$16,000	\$19,200

Pool Rentals

Rentals per Month	6	7.5
Months per Year	3	3
Avg. Fee per Rental (plus costs)	\$300	\$300
Subtotal Revenue	\$5,400	\$6,750

Birthday Parties

Avg. No. of Parties per Week	10	13
Avg. No. Weeks	16	16
Avg. Fee per Party	\$165	\$165
Subtotal Revenue	\$26,400	\$34,320

Concessions/Merchandise

Avg. No. Users per Week	6805	7827
No. of Weeks	16	16
Avg. Expenditure per User	\$2.50	\$2.50
Percent Net to City	17%	17%
Subtotal Revenue	\$46,274	\$53,224

Total Potential Revenue	\$403,374	\$442,794
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Potential Revenue

INSTRUCTIONAL POOL - SUMMER (4 Lane Lap Pool)

Water Aerobics / Fitness Classes

Avg. No. of Classes offered per Session	5	5
No. of Sessions per Year	6	6
Avg. No. of Participants per Class	5	7
Avg. Fee per Participant	\$40	\$40
Subtotal Revenue	\$6,000	\$8,400

Senior Water Aerobics / Fitness Classes

Avg. No. of Classes offered per Session	3	3
No. of Sessions per Year	6	6
Avg. No. of Participants per Class	4	6
Avg. Fee per Participant	\$35	\$35
Subtotal Revenue	\$2,520	\$3,780

Private Lessons

No. of Participants per Session	3	3.5
No. of Sessions per Year	6	6
Avg. Fee per Participant	\$100	\$100
Subtotal Revenue	\$1,800	\$2,100

Swimming Lessons

No. of Sessions	6	6
No. of Participants per Session	250	270
Avg. Fee per Session per Participant	\$50	\$50
Subtotal Revenue	\$75,000	\$81,000

Concessions/Merchandise

Avg. No. Users per Week	379	450
No. of Weeks	18	18
Avg. Expenditure per User	\$2.50	\$2.50
Percent Net to City	17%	17%
Subtotal Revenue	\$2,899	\$3,443

Total Potential Revenue	\$88,219	\$98,723
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Potential Revenue

INSTRUCTIONAL POOL - FWS (4-Lane Lap Pool)

Water Aerobics / Fitness Classes

Avg. No. of Classes offered per Session	3	3
No. of Sessions per Year	2	2
Avg. No. of Participants per Class	5	7
Avg. Fee per Participant	\$40	\$40
Subtotal Revenue	\$1,200	\$1,680

Private Lessons

No. of Participants per Session	3	3.5
No. of Sessions per Year	6	6
Avg. Fee per Participant	\$100	\$100
Subtotal Revenue	\$1,800	\$2,100

Swimming Lessons

No. of Sessions	2	2
No. of Participants per Session	65	80
Avg. Fee per Session per Participant	\$50	\$50
Subtotal Revenue	\$6,500	\$8,000

Concessions/Merchandise

Avg. No. Users per Week	128	164
No. of Weeks	18	18
Avg. Expenditure per User	\$2.50	\$2.50
Percent Net to City	17%	17%
Subtotal Revenue	\$979	\$1,255

Total Potential Revenue	\$10,479	\$13,035
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Potential Revenue

50 METER POOL - SUMMER

Lap Swim	Low	High
Avg. No. of Participants per Week	330	360
No. of Weeks	13	13
Avg. Fee per Participant	\$5.00	\$5.00
Subtotal Revenue	\$21,450	\$23,400

Masters Swim

Avg. No. of Participants per Day	35	50
No. of Days per Week	6	6
No. of Weeks	13	13
Avg. Fee per Participant	\$3.00	\$3.00
Subtotal Revenue	\$8,190	\$11,700

Deep Water Aerobics

Avg. No. of Classes offered per Session	5	5
No. of Sessions per Year	6	6
Avg. No. of Participants per Class	8	10
Avg. Fee per Participant	\$40	\$40
Subtotal Revenue	\$9,600	\$12,000

Swim Team Practice/Rental

Avg. No. of Teams	2	2
No. Months per Year	3	3
Avg. Fee per Team per Month	\$1,250	\$1,250
Subtotal Revenue	\$7,500	\$7,500

Water Polo Clubs

Avg. No. of Rentals per Week	2	3
Avg. No. of Weeks per Year	13	13
Avg. Fee per Rental (2 hours)	\$50	\$50
Subtotal Revenue	\$1,300	\$1,950

Intermediate Water Polo

Avg. No. of Participants per Session	25	30
No. Sessions per Year	1	1
Avg. Fee per Team per Month	\$44	\$44
Subtotal Revenue	\$1,100	\$1,320

Potential Revenue

50 METER POOL - SUMMER continued

Advanced Water Polo	Low	High
Avg. No. of Participants per Session	25	30
No. Sessions per Year	1	1
Avg. Fee per Team per Month	\$55	\$55
Subtotal Revenue	\$1,375	\$1,650

Instructional Classes (i.e. diving, scuba)

Average No. of Classes per Session	5	5
Average No. of Sessions per Year	3	3
Average No. of Participants per Class	10	12
Average Fee per Participant	\$75	\$75
Subtotal Revenue	\$11,250	\$13,500

Lifeguard Training

Avg. No. of Participants per Session	15	20
No. Sessions per Year	3	3
Avg. Fee per Team per Month	\$140	\$140
Subtotal Revenue	\$6,300	\$8,400

Pool Rentals

Rentals per Month	2	3
Months per Year	3	3
Avg. Fee per Rental (plus costs)	\$500	\$500
Subtotal Revenue	\$3,000	\$4,500

Weekend Rentals (Tournaments/Competitions etc.)

Avg. No. of Rentals	3	4
Avg. Fee per Rental	\$500	\$500
Subtotal Revenue	\$1,500	\$2,000

Concessions/Merchandise

Avg. No. Users per Week	1813	2450
No. of Weeks	13	13
Avg. Expenditure per User	\$2.50	\$2.50
Percent Net to City	17%	17%
Subtotal Revenue	\$10,019	\$13,535

Total Potential Revenue	\$82,584	\$101,455
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MORGAN HILL AQUATIC COMPLEX

Potential Revenue

*50 Meter Pool
Recreation/Activity Pool
Spray Ground
6-Lane Instructional Pool*

Summer	Low	Average	High
Open Recreation	\$300,000	\$309,500	\$319,000
Lap Swim	\$21,000	\$22,000	\$23,000
Master Swim	\$8,000	\$10,000	\$12,000
Fitness Classes	\$40,000	\$44,000	\$48,000
Lessons	\$102,000	\$107,000	\$112,000
Special Events	\$16,000	\$17,500	\$19,000
Birthday Parties	\$26,000	\$30,000	\$34,000
Summer Camps	\$9,000	\$10,000	\$11,000
Swim Team Rentals	\$8,000	\$8,000	\$8,000
Water Polo Rentals	\$1,000	\$1,500	\$2,000
Miscellaneous Aquatic Classes	\$20,000	\$22,500	\$25,000
Tournaments/Competitions	\$2,000	\$2,000	\$2,000
Pool Rentals	\$8,000	\$9,500	\$11,000
Concessions/Merchandise	\$59,000	\$64,500	\$70,000
Subtotal Summer Revenue	\$620,000	\$658,000	\$696,000
Fall and Spring			
Lap Swim	\$27,000	\$29,500	\$32,000
Master Swim	\$13,000	\$16,000	\$19,000
Fitness Classes	\$4,000	\$4,500	\$5,000
Lessons	\$11,000	\$12,000	\$13,000
Swim Team Rentals	\$23,000	\$23,000	\$23,000
Water Polo Rentals	\$4,000	\$4,500	\$5,000
Tournaments/Competitions	\$1,000	\$1,500	\$2,000
Pool Rentals	\$2,000	\$2,500	\$3,000
Concessions/Merchandise	\$18,000	\$22,000	\$26,000
Subtotal Fall and Spring Revenue	\$103,000	\$115,500	\$128,000
Total Potential Revenue (rounded)	\$723,000	\$773,500	\$824,000

Potential Revenue

INSTRUCTIONAL POOL - SUMMER (6 Lane Lap Pool)

Water Aerobics / Fitness Classes	Low	High
Avg. No. of Classes offered per Session	10	10
No. of Sessions per Year	6	6
Avg. No. of Participants per Class	10	12
Avg. Fee per Participant	\$40	\$40
Subtotal Revenue	\$24,000	\$28,800

Senior Water Aerobics / Fitness Classes

Avg. No. of Classes offered per Session	3	3
No. of Sessions per Year	6	6
Avg. No. of Participants per Class	10	12
Avg. Fee per Participant	\$35	\$35
Subtotal Revenue	\$6,300	\$7,560

Private Lessons

No. of Participants per Session	3	3.5
No. of Sessions per Year	6	6
Avg. Fee per Participant	\$100	\$100
Subtotal Revenue	\$1,800	\$2,100

Swimming Lessons

No. of Sessions	6	6
No. of Participants per Session	332	367
Avg. Fee per Session per Participant	\$50	\$50
Subtotal Revenue	\$99,600	\$110,100

Concessions/Merchandise

Avg. No. Users per Week	740	856
No. of Weeks	18	18
Avg. Expenditure per User	\$2.50	\$2.50
Percent Net to City	15%	15%
Subtotal Revenue	\$4,995	\$5,778

Total Potential Revenue	\$136,695	\$154,338
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Potential Revenue

INSTRUCTIONAL POOL - FWS (6-Lane Lap Pool)

Water Aerobics / Fitness Classes	Low	High
Avg. No. of Classes offered per Session	5	5
No. of Sessions per Year	2	2
Avg. No. of Participants per Class	10	12
Avg. Fee per Participant	\$40	\$40
Subtotal Revenue	\$4,000	\$4,800

Senior Water Aerobics

Avg. No. of Classes offered per Session	2	2
No. of Sessions per Year	1	1
Avg. No. of Participants per Class	6	8
Avg. Fee per Participant	\$35	\$35
Subtotal Revenue	\$420	\$560

Private Lessons

No. of Participants per Session	3	3.5
No. of Sessions per Year	6	6
Avg. Fee per Participant	\$100	\$100
Subtotal Revenue	\$1,800	\$2,100

Swimming Lessons

No. of Sessions	2	2
No. of Participants per Session	87	105
Avg. Fee per Session per Participant	\$50	\$50
Subtotal Revenue	\$8,700	\$10,500

Concessions/Merchandise

Avg. No. Users per Week	267	322
No. of Weeks	18	18
Avg. Expenditure per User	\$2.50	\$2.50
Percent Net to City	15%	15%
Subtotal Revenue	\$1,802	\$2,174

Total Potential Revenue	\$16,302	\$19,574
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Cost Recovery Potential

50 Meter Pool
Recreation/Activity Pool
Spray Ground
4-Lane Instructional Pool

9 Months of Operation				Cost Recovery Scenario with Second Slide (net revenue shown)			Cost Recovery Scenario with Additional Revenue from 6-Lane Lap Pool (net revenue shown) *			Cost Recovery Scenario with Second Slide & 6-Lane Lap Pool (net revenue shown)		
	Low	Average	High									
Probable Annual Expense	\$810,500	\$866,000	\$921,000									
Potential Annual Revenues	\$664,500	\$712,000	\$759,500	\$30,000	\$40,000	\$50,000	\$39,000	\$42,000	\$46,000	\$69,000	\$82,000	\$96,000
Cost Recovery Potential	72%	82%	94%	75%	87%	99%	76%	87%	99%	80%	92%	106%
Annual Subsidy/Profit	(\$256,500)	(\$154,000)	(\$51,000)	(\$226,500)	(\$114,000)	(\$1,000)	(\$217,500)	(\$112,000)	(\$5,000)	(\$187,500)	(\$72,000)	\$45,000
12 Months of Operation												
	Low	Average	High									
Probable Annual Expense	\$939,000	\$993,000	\$1,057,000									
Potential Annual Revenues	\$669,000	\$717,000	\$764,000									
Cost Recovery Potential	63%	72%	81%	66%	76%	87%	67%	76%	86%	70%	80%	92%
Annual Subsidy/Profit	(\$388,000)	(\$276,000)	(\$175,000)	(\$358,000)	(\$236,000)	(\$125,000)	(\$349,000)	(\$234,000)	(\$129,000)	(\$319,000)	(\$194,000)	(\$79,000)
				*2 Additional Lanes Provide 1) approximately 175 additional lessons 2) approximately 295 people aquatic fitness class opportunities								

Additional Construction Costs

2 Additional Lap Lanes	\$90,000
Second Slide	\$125,000



Fee Assumptions

Activity	Morgan Hill	
	Resident	Non-Resident
Drop-In		
<i>Preschool</i>	\$3.00	\$4.00
<i>Youth/Teen</i>	\$5.00	\$6.00
<i>Adults</i>	\$5.00	\$6.00
<i>Seniors</i>	\$3.00	\$4.00
Passes		
<i>10-Visit Punch</i>		
Child	\$26	\$34
Youth/Teen	\$43	\$51
Adult	\$43	\$51
Seniors	\$26	\$34
<i>20-Visit Punch</i>		
Child	\$45	\$60
Youth/Teen	\$75	\$90
Adult	\$75	\$90
Seniors	\$45	\$60
<i>Lap Swim Only</i>		
Summer	\$70	\$85
Monthly	\$45	\$55
Fall/Winter/Spring	\$125	\$150
Lap Swim	Same As Daily	Same As Daily
Birthday Parties	\$165	\$175
Water Aerobics		
<i>Drop-In</i>	\$5.00	\$6.00
<i>12-Visits</i>	\$38	\$42
Lifeguard Training	\$140	\$140
Swim Lessons		
<i>8+ Visits</i>	\$50	\$60
Private Lessons		
<i>4 or more Visits</i>	\$90	\$110
Specialty/Instructional Classes	\$75	\$95
Camps		
<i>Week Long</i>	\$75	\$95

MORGAN HILL AQUATIC COMPLEX

Fee Comparisons

Activity	Folsom	Roseville	San Ramon	Morgan Hill	
				<i>Resident</i>	<i>Non-Resident</i>
Drop-In					
<i>Preschool</i>	Free	\$2.00	\$1.25	\$3.00	\$4.00
<i>Youth/Teen</i>	\$4.00 to \$5.00	\$4.00	\$1.75	\$5.00	\$6.00
<i>Adults</i>	\$4.00 to \$5.00	\$5.00	\$2.25	\$5.00	\$6.00
<i>Seniors</i>	\$3.00		\$1.00	\$3.00	\$4.00
Passes					
<i>10-Visit Punch</i>					
Child			\$10	\$26	\$34
Youth/Teen	\$30r/\$35nr		\$15	\$43	\$38
Adult			\$20	\$43	\$38
Seniors			Not Available	\$26	\$34
<i>20-Visit Punch</i>					
Child				\$45	\$60
Youth/Teen				\$75	\$90
Adult				\$75	\$90
Seniors				\$45	\$60
<i>Summer Pass</i>					
Child		\$22			
Youth/Teen		\$60			
Adult		\$65			
<i>Lap Swim Only</i>					
Summer		\$75r/\$90nr	\$35	\$70	\$85
Monthly	\$50r/\$60nr	\$30r/\$36nr		\$45	\$55
Fall/Winter/Spring	\$125r/\$150nr			\$125	\$150
Lap Swim Drop-In	Same as Daily	Same as Daily	\$2.50	Same As Daily	Same As Daily
Birthday Parties	\$179 to \$199	\$90 to \$175	\$150r/\$175nr	\$165	\$175
Water Aerobics					
<i>Drop-In</i>	\$5.00		\$5.00	\$5.00	\$6.00
<i>10-Visits</i>	\$40.00				
<i>12-Visits</i>		\$33r/\$40nr		\$38	\$42
<i>16-Visits</i>			\$45.00		
Lifeguard Training	\$135r/\$150nr	\$100r/\$115nr		\$140	\$140
Swim Lessons					
<i>5 Visits</i>	\$24r/\$30nr				
<i>8+ Visits</i>		\$35r/\$41nr	\$47r/\$55nr	\$35	\$40
Private Lessons					
<i>1/2 Hour Session</i>	\$25.00				
<i>4 or more Visits</i>		\$130r/\$150nr	\$80r/\$90nr	\$90	\$110
Specialty/Instructional Classes				\$75	\$95
Camps					
<i>Day</i>		\$20r/\$25nr			
<i>2 Days</i>		\$47r/\$56nr			
<i>Week Long</i>				\$75	\$95

MORGAN HILL AQUATIC COMPLEX

Budget Comparisons

Facility	Pools	Expenses	Revenues	Annual Subsidy	Cost Recovery
Brentwood Aquatic Center	1) 25-Meter x 25-Yard all deep competition pool with 1-meter and 3-meter springboards 2) 3 lane lap pool with 2 -100' flume slides 3) 4,936 sf recreation pool with zero depth entry and play features	\$411,000	\$238,000	(\$173,000)	57.9%
<i>Source: Sue Barry, City of Brentwood</i>					
Folsom Aquatic Center	1) 52-Meter Pool 2) 6 Lane Instructional Pool with 1 slide 3) 4,000 sf Leisure/Activity Pool with play features	\$1,073,616	\$673,308	(\$400,308)	62.7%
<i>Source: Jocelyn Smeltzer, Aquatics Supervisor</i>					
Rose Bowl Aquatic Center	1) 50-Meter x 25-Yard all deep competition pool 2) 50-Meter x 25-Yard competition pool with shallow end and ADA ramp. Pool deepens to 5-Meters for a 10-Meter/5-Meter/3-Meter diving tower	\$1,448,603*	\$1,397,386**	(\$51,217)	96.5%
<i>Source: AAF Rose Bowl Aquatic Center</i>					
		*9 months of operation. (January through October) **\$199,774 of revenues from Grants/Donations and from City of Pasadena			
Roseville Aquatic Center	1) 50-Meter x 25-Yard Pool 2) 5 Lane Instructional/Warm-Up Pool 3) Recreational Pool with one (1) Waterslide	Not supplied	Not Supplied	Not Supplied	70.0%
<i>Source: Alexa Pritchard, Parks and Recreation Manager</i>					





CITY COUNCIL STAFF REPORT
MEETING DATE: FEBRUARY 5, 2003

**ADOPT RESOLUTION OF NECESSITY FOR PROPERTY
ACQUISITION FOR PROPOSED BUTTERFIELD
EXTENSION, PHASE IV**

RECOMMENDED ACTIONS:

- 1) Adopt attached Resolution of Necessity for portion of property identified as APN 817-059-006 for the proposed Butterfield Boulevard - Phase IV Improvements Project.
- 2) Approve the expenditure of \$8,350 plus escrow and closing costs for the acquisition of this property.

EXECUTIVE SUMMARY: As Council is aware, staff has been working on acquiring right-of-way for the next phase of Butterfield Boulevard Construction, from San Pedro to Tennant Avenue. In 2001, the City began its efforts to purchase this portion of property for the extension of Butterfield Boulevard. A real property appraisal was prepared by Clevenger Realty Appraisal Corp for this parcel and a final Environmental Impact Report was also prepared by David J. Powers & Associates in October 1992 for this project, both of which are incorporated into this staff report by reference.

The Council adopted a resolution of necessity on November 6, 2002 for acquiring this property. The property owners recently encumbered their property with a second deed of trust. The title company believed that Wells Fargo was the beneficiary of both trust deeds, however, upon further investigation, this conclusion proved to be erroneous. The City's only option is to amend the resolution of necessity and file an eminent domain action to condemn all interest in this property.

The owners of interest in the property have been notified of this hearing and their right to appear and be heard regarding items 1, 2, 3, and 5 in the findings of the attached resolution.

The City will be depositing with the State Condemnation Deposit Fund in Sacramento the amount of \$8,350 which represents the total appraised value of this small parcel. The attached Resolution of Necessity must be adopted by a two-third Council majority.

It remains our goal to begin the construction of this project this spring. The plans and specification for this project are almost complete and the project is scheduled to go out to bid in March 2003. Depending on the weather, the construction of the project will take approximately six months to complete. Based on this time schedule, it is anticipated that the construction of this phase of Butterfield Boulevard will be complete by Fall 2003.

By adoption of the attached resolution, you are directing the City Attorney to institute and conduct, in regard to the stated property, the conclusion actions of eminent domain for the acquisition of the estates and interests necessary to construct the Butterfield extension.

FISCAL IMPACT: This project is fully funded in the CIP FY 2002/03 budget with a total appropriation of \$3,850,000. The funding source is RDA and project number is 504D00.

Agenda Item # 16

Prepared By:

Senior Civil Engineer

Approved By:

Public Works Director

Submitted By:

City Manager

RESOLUTION NO. 5637

A RESOLUTION OF THE CITY OF MORGAN HILL DETERMINING THAT THE PUBLIC INTEREST AND NECESSITY REQUIRE THE ACQUISITION OF CERTAIN REAL PROPERTY AND DIRECTING THE FILING OF EMINENT DOMAIN PROCEEDINGS

(Butterfield Boulevard Extension Project)

WHEREAS, it is desirable and necessary for the City of Morgan Hill (hereinafter the “City”) to acquire certain real property, more particularly described in Exhibit A, attached hereto and incorporated herein by this reference (the “Subject Property”), for the Butterfield Boulevard Extension Project (hereinafter referred to as the “Project”); and

WHEREAS, the City is vested with the power of eminent domain to acquire real property by virtue of Article I, Section 19 of the Constitution of the State of California, Section 37350.5 of the California Government Code, Section 4090 of the Street and Highways Code, and Section 1240.010 of the California Code of Civil Procedure; and

WHEREAS, the fee owners of the Subject Property attempted to convey their interest in said property to the City, but were unable to convey said property free and clear of a deed of trust and the City therefore adopted Resolution No. 5624 to acquire the interest of beneficiary under said deed of trust; and

WHEREAS, the City has learned that there are additional potential interests in the property and, since the City desires to acquire a fee simple interest in the property it has, pursuant to the provisions of Section 1245.235 of the Code of Civil Procedure, duly given notice to Gary M. Cupps and Donita R. Cupps whose property is to be acquired by eminent domain and whose names and addresses appear on the Santa Clara County Equalized Assessment Roll, and said property owners have been given a reasonable opportunity to appear and be heard before the City Council; and

WHEREAS, pursuant to the provisions of Section 7267.2 of the California Government Code, the City has made an offer to said owners of record to acquire the Subject Property for the amount which it has established to be just compensation therefor.

NOW, THEREFORE, BE IT RESOLVED, THAT THE CITY OF MORGAN HILL finds and determines as follows:

1. The public interest and necessity require the Project.
2. The Project is planned or located in the manner that will be most compatible with the greatest public good and the least private injury.
3. The taking of the fee simple title in the real property more particularly described in Exhibit A is necessary for the Project.

4. All environmental review required by law has been prepared and adopted.
5. The offer required by Section 7267.2 of the California Government Code has been made to the owners of record of the real property.
6. The City's attorney or his or her duly authorized designee is hereby authorized and directed to institute and conduct to conclusion an action in eminent domain for the acquisition of the estates and interests aforesaid and to take such actions as he or she may deem advisable or necessary in connection therewith.
7. The City may deposit with the State Treasury the probable amount of compensation and obtain an order for prejudgment possession of the subject property.

PASSED AND ADOPTED by the City Council of Morgan Hill at a Regular Meeting held on the 5th Day of February, 2003, by the following vote.

AYES: **COUNCIL MEMBERS:**
NOES: **COUNCIL MEMBERS:**
ABSTAIN: **COUNCIL MEMBERS:**
ABSENT: **COUNCIL MEMBERS:**

🏛️ CERTIFICATION 🏛️

I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA,
do hereby certify that the foregoing is a true and correct copy of Resolution No. 5637, adopted by the City Council at the Regular Meeting on February 5, 2003.

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.

DATE: _____

IRMA TORREZ, City Clerk



CITY COUNCIL STAFF REPORT

MEETING DATE: *February 5, 2003*

SUBSEQUENT DEVELOPMENT REIMBURSEMENT AGREEMENT WITH MR. ANTHONY O. ALOSI FOR TRACT 8736

RECOMMENDED ACTION:

Approve the attached Subsequent Development Reimbursement Agreement and authorize the City Manager to execute the agreement on behalf of the City.

Agenda Item # 17

Prepared By:

Assistant Engineer

Approved By:

Public Works Director

Submitted By:

City Manager

EXECUTIVE SUMMARY:

Mr. Alosi is the developer of the Stone Creek Development Project (Tract 8736), a 35 lot residential subdivision located in Tract 8736 on Rosemary Circle off of Diana Avenue. As a necessity for the development for the Stone Creek Development Project, Mr. Alosi was conditioned to install, among other things, 510 linear feet of 8-inch diameter sewer main and 510 linear feet of 8-inch DIP water main in Rosemary Lane. In addition, the developer also contributed \$67,867.10 toward improvements on East Dunne Avenue. The funds were contributed with the understanding that he would be reimbursed upon the development of properties along Dunne Avenue between Creekside Village and Walnut Grove Drive.

Per City Code requirement, Mr. Alosi is entitled to be reimbursed for off-site costs, over and above his development's fair share from the subsequent benefitting parties as the adjoining land develops. The off-site public improvement cost was \$86,474.60. This agreement will allow the City to reimburse Mr. Alosi for an amount up to \$86,474.60 (Exhibit "A") from the frontage improvement fees collected when the lots fronting Rosemary Lane and East Dunne Avenue are developed in the future. To gain his reimbursement, Mr. Alosi must enter into a reimbursement agreement with the City. The reimbursement would be made by the City to Mr. Alosi as the City collects the frontage improvement fees from adjoining developers. There is a 10 year sunset clause to this type of agreement in accordance with City Code.

FISCAL IMPACT:

The total maximum reimbursement will be \$86,474.60. The source of funding for this reimbursement agreement will be the frontage charge fees for future beneficiary developments on Rosemary Lane and East Dunne Avenue.



**REDEVELOPMENT AGENCY/CITY
COUNCIL STAFF REPORT**
MEETING DATE: February 5, 2003

Agenda Item # 18

Approved By:

BAHS Director

Submitted By:

Executive Director

**PROPOSAL FOR THE RENOVATION OF THE ISAACSON
GRANARY**

RECOMMENDED ACTION(S): 1) Consider recommendation from the City Council Economic Development Committee and 2) Direct staff on how to proceed.

EXECUTIVE SUMMARY: Councilmembers have requested the opportunity to discuss the proposal from Weston-Miles Architects to renovate the Isaacson Granary located on Depot Street. Weston-Miles proposes to renovate the existing Granary into 10,000 sq. ft. of commercial/office space. The Granary Project would also include a temporary Day Worker Center on the vacant, northern portion of the property. Weston-Miles is requesting a \$350,000 loan at 3% interest to be paid back in four years. Attached for your review is their most recent proposal and a parcel map.

As background, the City Council Economic Development Committee (EDC) began its initial review of the Weston-Miles proposal back in October 2002. Since that time, the EDC has met several times to discuss the proposal and its subsequent revisions. The EDC is not prepared to make a recommendation at this time for the following reasons:

- The EDC would like the proposal to address the future development of the entire site, not just the renovation of the granary.
- The EDC would prefer to have an open, more competitive process for development in the downtown area. They would like to avoid a "first come first serve" approach for proposals in the downtown.
- There are no Council approved parameters by which to specifically evaluate the risk and level of investment required for the project.
- There is no specific criteria by which to evaluate the priority of this project in the downtown area.

At the recent workshop to discuss RDA allocations, the City Council directed the EDC to refine the concept of issuing a Request For Proposals (RFP's) for a development project downtown. The RFP would request development proposals and indicate the level of assistance the Agency would be willing to provide the selected project(s). This would eliminate the "first come first serve" approach and provide an opportunity for all potential developers to submit a proposal for consideration. The EDC would develop funding for the RFP by allocating \$1M from Agency funds reserved for economic development, \$1M from 20% housing setaside funds, and \$1M in funds for infrastructure. Under this scenario, Weston-Miles' proposal would need to be resubmitted as a response to the RFP. Staff concurs the RFP process is a reasonable approach for downtown development.

However, should the City Council determine that this project is one of the highest priorities and/or an important catalyst project for downtown, staff can move forward with negotiating an assistance package independent of the RFP process or, the EDC can reconsider its position based on this direction. In either case, it would be helpful to receive some guidance on such issues as the maximum level of assistance and level of risk the Council is willing assume for this project.

FISCAL IMPACT: Depends on Council direction



CITY COUNCIL STAFF REPORT

MEETING DATE: February 5, 2003

AN ORDINANCE AMENDING SECTION 17.32.160 OF AND ADDING SECTION 17.32.165 TO THE MUNICIPAL CODE REGARDING REIMBURSEMENT AGREEMENTS FOR INSTALLATION OF PUBLIC IMPROVEMENTS

RECOMMENDED ACTION(S):

1. Waive the first and second reading of the ordinance.
2. Introduce the ordinance.

EXECUTIVE SUMMARY:

Developers are often required, as a condition of development, to pay for public improvements needed due to the impacts their projects have on the public infrastructure. This payment occurs in the form of a development impact fee and/or by a requirement that the developer actually construct the improvements. However, in the interests of achieving economies of scale, the developer may be required to construct public improvements which go beyond the direct impact of the current development. For example, they may be required to construct the full sidewalk on a city block instead of just the portion fronting their parcel. The costs for such “oversize” construction are reimbursed to the developer as adjacent parcels develop.

The City’s practice is to enter into reimbursement agreements which specify what the public improvement is, and what reimbursement the developer may obtain. Reimbursement may take the form of direct reimbursement from City funds at the time of the improvements or by future reimbursement from abutting property owners at the time of property development. However, the Municipal Code does not currently explicitly provide a mechanism for such reimbursement agreements. Staff believes the attached amendment and addition to the Municipal Code are required to clarify the City’s intentions in regards to such reimbursement agreements.

FISCAL IMPACT:

No budget adjustment is required.

Agenda Item # 19

Prepared By:

(Title)

Approved By:

(Department Director)

Submitted By:

City Manager

ORDINANCE NO. 1604, NEW SERIES

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL AMENDING SECTION 17.32.160 (Improvement agreement–Preparation–Contents) AND ADDING SECTION 17.32.165 (Improvement agreement-Reimbursement Provisions) OF CHAPTER 17.32 (Improvements and Improvement Agreements) OF TITLE 17 (Subdivisions) OF THE MUNICIPAL CODE OF THE CITY OF MORGAN HILL REGARDING REIMBURSEMENT AGREEMENTS WITH DEVELOPERS FOR PUBLIC IMPROVEMENTS

WHEREAS, in recognition of the impact private development has on the public infrastructure, developers are often required, as a condition of development, to pay for public improvements, either in the form of a development impact fee and/or by constructing such improvements; and,

WHEREAS, in the interests of achieving economies of scale, such construction may include installation of public improvements which go beyond the impact of the current development, but construction costs are reimbursed to the developer by the City or by adjacent developers as adjacent parcels develop; and,

WHEREAS, the City's practice is to enter into a reimbursement agreement which specifies what the public improvement is, and what reimbursement the developer may obtain; and,

WHEREAS, the Municipal Code does not currently provide a mechanism for such reimbursement agreements; and,

WHEREAS, the following amendment and addition to the Municipal Code are required to clarify the City's intentions in regards to such reimbursement agreements.

NOW THEREFORE, IN CONSIDERATION OF THE FOREGOING, THE CITY COUNCIL OF THE CITY OF MORGAN HILL DOES HEREBY ORDAIN AND ENACT AS FOLLOWS:

Section 1. Section 17.32.160 (Improvement agreement–Preparation–Contents) of Chapter 17.32 (Improvements and Improvement Agreements) of Title 17 (Subdivisions) is hereby amended to read as follows:

Section 17.32.160 Improvement agreement--Preparation--Contents.

The agreement shall be prepared and signed by the city engineer and approved as to form

by the city attorney. The agreement shall provide for:

L. Reimbursement provisions, if applicable, as further addressed in Section 17.32.165 below

Section 2. Section 17.32.165 (Improvement agreement–Reimbursement Provisions) of Chapter 17.32 (Improvements and Improvement Agreements) of Title 17 (Subdivisions) is hereby added to read as follows:

***Section 17.32.160 Improvement agreement–Reimbursement Provisions** Whenever an applicant is required, as a condition of approval for a development permit, to construct any facility or improvement (or a portion thereof) which facility or improvement is determined by the city to exceed the need directly attributable to and reasonably related to the given development project, a reimbursement provision shall be offered to the applicant. The provision shall govern reimbursements for actual construction costs, and shall be applied with respect to that portion of the improvement or facility which exceeds the need therefor caused by the development.*

Section 3. Severability. Should any provision of this ordinance be deemed unconstitutional or unenforceable by a court of competent jurisdiction, such provision shall be severed from the ordinance, and such severance shall not affect the remainder of the ordinance.

Section 4. Effective Date; Posting. This ordinance shall take effect thirty (30) days after its second reading. This ordinance shall be posted at City Hall.

The foregoing ordinance was introduced at the regular meeting of the City Council of the City of Morgan Hill held on the 5th Day of February 2003, and was finally adopted at a regular meeting of said Council on the 19th Day of February 2003, and said ordinance was duly passed and adopted in accordance with law by the following vote:

AYES: **COUNCIL MEMBERS:**
NOES: **COUNCIL MEMBERS:**
ABSENT: **COUNCIL MEMBERS:**
ABSTAIN: **COUNCIL MEMBERS:**

ATTEST:

APPROVED:

Irma Torrez, City Clerk

Dennis Kennedy, Mayor

 **CERTIFICATE OF THE CITY CLERK** 

I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA, do hereby certify that the foregoing is a true and correct copy of Ordinance No. 1604, New Series, adopted by the City Council of the City of Morgan Hill, California at their regular meeting held on the 19th Day of February, 2003.

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.

DATE: _____

IRMA TORREZ, City Clerk



CITY COUNCIL STAFF REPORT

MEETING DATE: February 5, 2003

TITLE: Urban Limit Line (Greenbelt) Study: Appointment of Advisory Committee including Selection of City Council Members and Designation of the Chairperson

RECOMMENDED ACTIONS:

1. Approve the Urban Limit Line Advisory Committee membership recommended by Mayor Kennedy and Council Member Carr.
2. Appoint two members of the Council to serve on the Committee and designate the Committee's Chairperson.
3. Approve guidelines for conduct of the Committee

EXECUTIVE SUMMARY: The Urban Limit Study will be a joint City-County planning effort intended to establish a long-term growth boundary and designation of Greenbelt areas. The Study is anticipated to take approximately one year. The recommendations of an Advisory Committee will be reviewed and acted upon by the City and County Planning Commissions, County Board of Supervisors and City Council.

On November 20, 2002 the Council appointed Mayor Kennedy and Council Member Carr to make recommendations on the Advisory Committee's membership. The Committee's composition, as outlined at the November 20th Council meeting, is to include two City Council members, one of whom will chair the Committee, two City Planning Commissioners, one County representative recommended by Supervisor Gage, one School District representative recommended by the District and approximately nine citizen members representing a wide range of interests including unincorporated area residents.

The City provided public notices, including newspaper advertisements and a front page article in City Visions, soliciting applications for Committee membership. Seventeen applications were received and Supervisor Gage recommended appointment of County Planner Commissioner Richard Palmisano, a resident of San Martin. The School District has not yet responded to a request to recommend a Committee member. The City Planning Commission recommends appointment of Commissioners Bob Engles and Joe Mueller. Mayor Kennedy and Council Member Carr met and recommend appointment of the 14 individuals, including one alternate, on the attached list.

The Council has requested guidelines be developed for the operation and reporting of all Council-appointed committees. Guidelines for this committee will be provided to the Council at the February 5th meeting.

FISCAL IMPACT: Appointment of the Committee does not have a budget impact.

Agenda Item # 20

Prepared By:

**Community
Development Director**

Submitted By:

City Manager

URBAN LIMIT LINE STUDY ADVISORY COMMITTEE MEMBERSHIP

Two City Council members: (to be appointed)

Two Planning Commissioners: Bob Engles and Joe Mueller

Committee members recommended by Mayor Kennedy and Council Member Carr:

Anne Beale

Alex Kennett

Tim Chiala

Farming community representative

Richard Palmisano

County Planning Commission representative

Jim DeVittorio

Art Puliafico

Jessica Fitchen

Environmental community representative

Bruce Tichinin

Rocke Garcia

Development community representative

George Thomas, Jr.

Mark Grzan

Placido Forestieri (Alternate)*

Janice Guglielmo

Wine industry representative

* Mr. Forestieri is to function as a member of the Committee whenever a Committee member is absent.



CITY COUNCIL STAFF REPORT

MEETING DATE: February 5, 2003

Agenda Item # 21

Prepared/Approved
By:

Council Services &
Records Manager

Submitted By:

REQUEST FOR COUNCIL SPONSORSHIP OF SILICON VALLEY ONE BOOK, ONE COMMUNITY READS

RECOMMENDED ACTION: CONSIDER MAYOR'S REQUEST TO CO-SPONSOR SILICON VALLEY ONE BOOK, ONE COMMUNITY READS

EXECUTIVE SUMMARY:

On August 21, 2002, the City Council adopted Resolution No. 5609 (attached) which established facility use rental fees for the Community and Cultural Center and the Community Playhouse. Prior to the adoption of the Resolution, the Council considered the staff report regarding the fact that fees were developed with a philosophy that rental fees should recover a portion of the costs of operating the facilities. Staff indicated that it was their desire to establish fees which were not only based on cost recovery assumptions but which also provided for more affordable, reduced fees as an incentive for use of the Community and Cultural Center by local residents and groups. In order to accomplish this goal, staff recommended a graduated rate schedule that would be applied for each facility. As such, wherever possible, rental fees were separated into the following four categories:

- Category A: Official City use or City Sponsored Events – No charge
- Category B: Morgan Hill residents and organizations or businesses which are comprised of at least 60% Morgan Hill residents receive a 20% discount from market rate.
- Category C: Morgan Hill non-profit (501c3) organizations receive a special non-profit rate.
- Category D: All others are charged a market rate.

Mayor Kennedy is requesting that the Council agree to co-sponsor, in association with the Santa Clara County Office of Education, BookSmart Bookstore, Morgan Hill Library, Morgan Hill Times, Friends of the Library, Morgan Hill Branch of the American Association of University Women and the Morgan Hill Unified School District, an upcoming "Bilingual Presentation and Book Signing" event scheduled for Saturday, February 22, 2003 from 10:00 a.m. to 12:00 noon at the Community and Cultural Center, El Toro Room, as part of Silicon Valley Reads – One Book One Community Reads. Award winning author Francisco Jimenez will be the featured author at this event for his book entitled ***Breaking Through*** a Memoir of Growing up in a California Migrant Worker Family.

Staff is working through new challenges and nuances associated with the use of the Community and Cultural Center. Staff has been advised that the Friends of the Library have agreed to pay the \$40 event attendant fee. This fee will be used to pay for an event attendant who will assist with the event and for securing the facility at the conclusion of the event.

FISCAL IMPACT: Co-sponsoring this event would result in the loss of revenues of approximately \$500 in cost recovery for the use of the Community and Cultural Center facility. The \$40 that the Friends of the Library have agreed to pay is not included in this amount.



CITY COUNCIL STAFF REPORT

MEETING DATE: February 5, 2003

CITY COUNCIL/REDEVELOPMENT AGENCY SUMMER MEETING SCHEDULE

RECOMMENDED ACTIONS: Discussion and Direction
Regarding Summer Meeting Schedule

Agenda Item # 22

Prepared/Approved
By:

Council Services &
Records Manager

Submitted By:

EXECUTIVE SUMMARY:

Traditionally, the City Council/Agency Board cancels one or two of its meeting during the months of July and/or August. Staff would like to take this opportunity to discuss with the Council and Agency Board its recommendation for meetings to be held during the summer months. Should the Council and Agency Board decide to cancel a meeting(s) during the summer month(s), staff will update all listings to ensure that the public is made aware of the change in meeting schedule. Staff will schedule items before the City Council and Agency Board accordingly. If issues arise that require City Council and/or Agency Board action, staff will advise you and a meeting can be scheduled.

Staff has attached City Council/Redevelopment Agency meeting schedule for the months of June, July, and August 2003 for Council/Agency Board reference.

FISCAL IMPACT: Preparation of this staff report is accommodated in the Council Services & Records Manager's operating budget.